DEFENSE PRODUCTION ACT

PROGRESS REPORT—NO. 30

HEARING

BEFORE THE

JOINT COMMITTEE ON DEFENSE PRODUCTION
CONGRESS OF THE UNITED STATES

EIGHTY-FOURTH CONGRESS

FIRST SESSION

TO HEAR

DR. ARTHUR S. FLEMMING, DIRECTOR, OFFICE OF DEFENSE MOBILIZATION, ON PROGRESS OF DEFENSE MOBILIZATION PROGRAM

APRIL 15, 1955

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DEFENSE PRODUCTION ACT

Progress Report—No. 30

FRIDAY, APRIL 15, 1955

JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D. C.

The committee met at 2 p. m., Representative Paul Brown (chairman) presiding.

Present: Senators Robertson and Bricker; Representatives Patman, Rains, and Talle.

Also present: Senator Dirksen.

The CHAIRMAN. It is the duty of the Joint Committee on Defense Production to make a continuous study of programs authorized by the Defense Production Act and to review the progress achieved in the execution and administration of these programs.

We are glad to have Dr. Arthur S. Flemming, Director of the Office of Defense Mobilization, meet with us today. The Office of Defense Mobilization establishes the policy which is followed by the various departments and agencies which perform functions under the Defense Production Act. It is the one office which the committee may consult with regard to all programs under the act.

The purpose of this meeting is to review the progress achieved to date under the Defense Production Act and to discuss any problems which may confront us. This is a general hearing, and is not confined to any specific subjects. If the need for hearings on specific subjects should develop, this will be considered at a later date.

Dr. Flemming has a prepared statement. Before he goes into this prepared statement, I understand Senator Robertson wants to ask some questions. He won't be with us very long.

You may ask those questions, if you will.

Senator ROBERTSON. Mr. Chairman, I appreciate that privilege. I promised the Senator from Illinois, Mr. Dirksen, who wanted to be here for a little while, but had to catch an earlier train—he had 1 or 2 questions he wanted to ask and I would like to have it understood when he comes in, if he is able to come here——

Senator BRICKER. Do you mean Douglas or Dirksen?

Senator ROBERTSON. Dirksen. If he comes in, I will yield.

The CHAIRMAN. All right.

Senator ROBERTSON. Doctor, I have a friend who is interested in mica. He assures me that he isn't interested from a commercial standpoint for himself, but he was at one time connected with a domestic firm producing mica, and now I think he is probably connected with an importing firm from India.

He expressed the belief that your present stockpile of mica was quite inadequate. I don't know how many thousand jet engines he said would consume all you had, but it is not beyond the realm of possibility that that would happen, and he also wanted to know whether the standard for your purpose wasn't much higher than commercial standards.

Would you tell us first about your stockpile?

STATEMENT OF DR. ARTHUR S. FLEMMING, ACCOMPANIED BY CHARLES H. KENDALL, GENERAL COUNSEL, ODM, AND OLIVER POPENOE, STAFF ASSISTANT

Dr. FLEMMING. Mr. Chairman and Senator Robertson, I might make just a general statement on the mica situation. Of course, I can't go into the exact stockpile figures in an open hearing, but I can give you a general picture of the situation. The major categories being stockpiled under the Strategic Stockpiling Act at the present time include muscovite block, stained and better, muscovite film, first and second quality, and for only one of these, namely, the muscovite splittings, has the minimum stockpile objective been exceeded. Consequently, continued efforts are underway to expand the supply of mica. Under the Defense Production Act, gross transactions of approximately $33 million have been consummated and a domestic program involving the payment of prices substantially higher than normal market prices has been in effect for several years, as you know.

Senator ROBERTSON. May I interrupt you at that point, because it reminds me of something he said. He said domestic prices were six to seven hundred percent higher than you would have to pay to get the mica from India.

Dr. FLEMMING. My understanding is it is about 300 percent. It is considerably higher than the foreign price, there isn't any question about that. It is comparable to some other programs that were launched right after the outbreak of hostilities in Korea, where premium prices were paid.

In addition, I might say here, Senator, of course, the reason that the Government had for entering into contracts of that kind was to do what it could in the direction of developing a domestic mobilization base, so as to lessen its dependence on foreign sources of supply.

Senator ROBERTSON. As a matter of fact, your principal sources of supply, as I understand, are India and Brazil.

Dr. FLEMMING. That is right.

Senator ROBERTSON. They are both a long ways away.

Dr. FLEMMING. That is right. That is why the Government has been interested in doing everything it could in the direction of developing the domestic supply.

Senator ROBERTSON. My informant was of the opinion that because of the scarcity of mica, and the locality of it, you would never be able, even at an exorbitant price, to develop adequate domestic supply.

Dr. FLEMMING. Senator Robertson, I think undoubtedly his position is correct. I don't think we would ever be able to develop a completely adequate supply.

As far as the specifications are concerned, the specifications on the domestic are in some instances higher than you might find in connection with commercial specifications, and in other instances they are lower, depending on the use that the Government feels it might have for the mica.

Our present position is not satisfactory, as far as the stockpile is concerned, as you indicate, and we have asked two groups recently to look into the question, one, to report on possible expansion of foreign procurement of high-grade mica, and the other to report on progress made in development of substitutes and alternate materials.

The armed services have long been aware of the potentially serious situation that would exist in wartime in view of the stockpile status of mica and many research projects have been undertaken both by industry and the Government to develop substitute and alternate materials.

Thus far, however, particularly in the more critical uses, effective replacements have been developed only to a very limited extent.

That is our current overall situation, Mr. Chairman, as far as mica is concerned.

Senator ROBERTSON. Mr. Chairman, that satisfies me.

The CHAIRMAN. What amount of subsidy has been paid to the domestic miners?

Dr. FLEMMING. How much have we paid in the way of subsidy?

Mr. KENDALL. That is very complicated and varies. We could supply the regulation.

Dr. FLEMMING. I could supply that for the record.

The CHAIRMAN. Will you supply it?

(The information is as follows:)

DOMESTIC MICA EXPANSION PROGRAM

After the outbreak of hostilities in Korea, the critical shortage of Muscovite block and film mica required the expansion of supply by all means possible. Under the provisions of the Defense Production Act of 1950, the Defense Production Administration in 1951 approved a program to procure mica from domestic sources, and certified the necessary funds. Three domestic purchase depots were established, operated by Government personnel: at Custer, S. Dak.; Franklin, N. H.; and Spruce Pine, N. C.

The original program provided for the purchase of 25,000 tons of hand-cobbed mica at an estimated average price of $600 per ton of mica meeting certain prescribed specifications. The estimated average price has recently been increased to $1,240 per ton to reflect current cost experience.

The program originally was to terminate at the close of business June 30, 1955, or when the 25,000 tons had been delivered and accepted, whichever occurs first. The Domestic Minerals Program Extension Act of 1953 (Public Law 206, 83d Cong.) extended the termination date for this program to June 30, 1957.

Under the domestic program, hand-cobbed mica and other forms are bought at prices equivalent to $27 a pound for good, stained, and better quality material as compared to $14 a pound for comparable foreign material. The difference in individual prices is at times even larger, especially in case of the high-grade material.

As of February 25, 1955, there had been delivered to the 3 depots, 394,500 pounds of block mica and 1,772,500 pounds of hand-cobbed mica, or a total of 2,167,000 pounds. Of the quantity delivered, approximately 1,780,000 pounds have been processed with a yield of 162,200 pounds of good, stained, and better; 156,500 pounds of stained A and B; and 87,600 pounds of stained B and lower.

The gross transactions certified to date under the Defense Production Act of 1950, as amended, are $31,250,000 and the probable ultimate net cost is estimated to be $10,321,000.

[Published in the Federal Register, May 29, 1954, 19 F. R. 3194]

TITLE 32A—NATIONAL DEFENSE, APPENDIX

CHAPTER XIV—GENERAL SERVICES ADMINISTRATION

[Revision 3]

MICA REGULATION: PURCHASE PROGRAMS FOR DOMESTIC MICA

This revision extends for one year the period during which persons may notify the Government of their desire to participate in Programs A and B set forth herein. It permits simultaneous participation in both Programs and revises certain of the prices applicable to deliveries of nonruby mica. Provision is made for the acceptance of and payment for block and film mica containing less than twenty percent (20%) good stained and better quality, as heretofore required. and for the acceptance of and payment for hand-cobbed mica yielding not less than forty and five-tenths (40.5) pounds of stained or better quality block or film mica per short ton (2000 pounds). This Revision embodies or supersedes Revision 2 dated July 22, 1953, and Amendment 1 to said Revision 2, dated September 25, 1953.

Sec.
1. Basis and purpose.
2. Definitions.
3. Duration of Programs A and B.
4. Program A.
5. Program B.

AUTHORITY: Sections 1 to 5 issued under sec. 704, 64 Stat. 816, as amended, Pub. Law 95, 83d Cong.; 50 U. S. C. App. 2154. Interpret or apply sec. 303, 64 Stat. 801, as amended, Pub. Laws 95, 206, 83d Cong.; 50 U. S. C. App. 2093, E. O. 10480, 18 F. R. 4939, 3 CFR, 1953 Supp.

SECTION 1. *Basis and purpose.* This regulation interprets and implements the authority of the Administrator of General Services to purchase, pursuant to Executive Order 10480 dated August 14, 1953 (18 F. R. 4939, 3 CFR, 1953 Supp.), hand-cobbed muscovite ruby and nonruby crude mica and processed muscovite ruby and nonruby block and film mica, all of domestic origin. In accordance with Programs A and B set forth herein, the Administrator will buy domestically produced mica conforming to the requirements, at the prices, and under the other terms and conditions of this regulation.

SEC. 2. *Definitions.* As used in this regulation:

(a) "Administrator" means the Administrator of General Services.

(b) "Government depot" means the purchase depots of the Government at Franklin, New Hampshire, Spruce Pine, North Carolina, Custer, South Dakota, or any other such depots established hereafter.

(c) "Domestic origin" means mined within the United States (the forty-eight States and the District of Columbia).

(d) "Block mica" means processed muscovite ruby and nonruby block mica which conforms with the requirements of section 4 (b) of this regulation.

(e) "Film mica" means processed muscovite ruby and nonruby film mica which conforms with the requirements of section 4 (b) of this regulation.

(f) "Hand-cobbed mica" means run-of-the-mine muscovite ruby and nonruby mica crystal which is free from dirt, rock and mine run scrap and which conforms with the requirements of section 5 (b) of this regulation.

(g) "Program A" means the Program for purchase by the Government of processed block and film mica of domestic origin.

(h) "Program B" means the Program for purchase by the Government of hand-cobbed mica of domestic origin.

(i) "Regional Director" means the Director of any one of the following General Services Administration regional offices having jurisdiction as indicated below:

Region No.	Addresses	Government depots over which jurisdiction is exercised
1	Regional Director, General Services Administration, 620 Post Office and Courthouse, Boston 9, Mass.	Franklin, N. H.
4	Regional Director, General Services Administration, 50 7th St. NE., Atlanta 5, Ga.	Spruce Pine, N. C.
6	Regional Director, General Services Administration, 1800 Federal Office Bldg., 911 Walnut St., Kansas City 6, Mo.	Custer, S. Dak.

SEC. 3. *Duration of Programs A and B.* Programs A and B shall terminate and be of no further force or effect and deliveries thereunder will not be accepted after the close of business June 30, 1957, or when the total block, film and hand-cobbed mica delivered to and accepted by the Government under said Programs reaches the equivalent of 25,000 short tons of hand-cobbed mica, whichever first occurs. For the purpose of computing said 25,000 short tons of handcobbed mica, 90 pounds of block or film mica shall be deemed to be the equivalent of one (1) short ton of hand-cobbed mica.

SEC. 4. *Program A*—(a) *Participation in program.* Any person may participate in Program A by giving notice to the Regional Director having jurisdiction over the Government depot nearest to the location of his mica processing plant. Such notice shall be in the form of a letter, postcard or telegram, postmarked or dated by the telegraph office not later than June 30, 1955, and shall state: (1) That the applicant has read this regulation and accepts its terms and conditions, and (2) that he desires to participate in "Mica Program A" and will offer mica to the Government pursuant thereto. Such notice must be signed and a return address given. Any person giving notice in the form required above will promptly be sent a certificate authorizing him to deliver block or film mica which conform with the requirements set forth in paragraph (b) of this section.

(b) *Requirements.* (1) All block and film mica purchased under Program A shall in every respect conform to the requirements of American Society for Testing Materials Specification D–351, latest revision as of the date of acceptance of each lot of block or film mica by the Government. All good stained and better nonruby block and film mica purchased under Program A shall in addition conform in every respect to the requirements for Class C–1–BB of American Society for Testing Materials Specification D–748 latest revision as of the date of acceptance of each lot of nonruby block or film mica by the Government. The qualities for all block and film mica which will be accepted are good stained and better, stained and heavy stained.

(2) The following grades will be accepted:

Grades	Area of minimum rectangle	Minimum dimension of 1 side
	Square inches	*Inches*
No. 6	1	¾
No. 5½	2¼	⅞
No. 5	3	1
No. 4	6	1½
No. 3 and larger	10	2

(3) All good stained and better block and film mica must be full-trimmed: stained and heavy stained will be accepted in half trimmed or full trimmed form.

(c) *Deliveries.* Block and film mica offered to the Government under Program A shall be delivered f. o. b. the Government depot nearest to the participant's processing plant. Each individual lot must contain exclusively either ruby or nonruby mica; mixed lots will be rejected. Prior to delivery a participant must give the Superintendent of the Government depot to which he is shipping, reasonable advance notice with respect to the quantity to be delivered and the proposed delivery date. The Superintendent of the Government depot will then establish a delivery schedule with each participant. The Government reserves the right to reject any deliveries that have not been so scheduled.

(d) *Inspection and acceptance.* Each delivery will be inspected by the Government at the Government depot. Deliveries not conforming to the minimum requirements set forth in paragraph (b) of this section will be rejected and all costs to the Government except inspection costs in connection therewith will be borne by the owner of the mica. The decision of the Government with regard to acceptance (including quality, grade and other requirements) or rejection will be final.

(e) *Price and payment.* (1) Payment for each lot of processed ruby and nonruby block and film mica, containing at least eighteen percent (18%) good stained and better quality, delivered f. o. b. Government depot, and accepted by the Government, shall be made on the basis of the following Price Schedule:

[Per pound]

Grades	Ruby				
	Qualities (full-trimmed)			Qualities (half-trimmed)	
	Good stained and better	Stained	Heavy stained	Stained	Heavy stained
No. 3 and larger	$70.00	$18.00	$13.00	$12.00	$8.00
No. 4 and No. 5	40.00	8.00	6.00	5.00	4.00
No. 5½ and No. 6	15.00	5.00	3.00	3.00	2.00
	Nonruby				
No. 3 and larger	$70.00	$14.40	$10.40	$9.60	$6.40
No. 4 and No. 5	40.00	6.40	4.80	4.00	3.20
No. 5½ and No. 6	15.00	4.00	2.40	2.40	1.60

(2) Payment for each lot of processed ruby and nonruby block and film mica containing less than eighteen percent (18%) good stained or better quality, delivered f. o. b. Government depot, and accepted by the Government, shall be made on the basis of the Price Schedule appearing in paragraph (e) (1) of this section, adjusted to reflect the proportionately lower quantity of good stained or better quality mica contained in each such lot. The price adjustments provided for herein shall be effected in the following manner: The dollar and cents value of each lot shall be determined in accordance with the aforesaid Price Schedule. Such value shall be multiplied by a fraction, the denominator of which shall be eighteen percent (18%), and the numerator of which shall be the percentage expression of the quantity of good stained or better quality mica contained in such lot. The result shall be the final basis for payment.

SEC. 5. *Program B*—(a) *Participation in program.* Any person may participate in Program B by giving notice to the Regional Director having jurisdiction over the Government depot nearest to the location of his mine or deposit. Such notice shall be in the form of a letter, postcard or telegram, postmarked or dated by the telegraph office not later than June 30, 1955, and shall state: (1) That the applicant has read this regulation and accepts its terms and conditions, and (2) that he desires to participate in "Mica Program B" and will offer mica to the Government pursuant thereto. Such notice must be signed and a return address given. Any person giving notice in the form required above will promptly be sent a certificate authorizing him to deliver hand-cobbed mica which conforms with the requirements of paragraph (b) of this section.

(b) *Requirements.* (1) All hand-cobbed mica under Program B must yield at least forty and five-tenths (40.5) pounds of stained or better quality block or film mica per short ton.

(2) All block and film mica to be processed from this hand-cobbed mica shall conform in all other respects with the requirements of American Society for Testing Materials Specification D–351, latest revision as of the date of acceptance of each lot of hand-cobbed mica by the Government.

(3) The good stained and better nonruby block and film to be processed from this hand-cobbed mica shall, in addition, conform in every respect with the requirements for Class C–1–BB of American Society for Testing Materials Specification D–748, latest revision as of the date of acceptance of each lot of nonruby hand-cobbed mica by the Government.

(c) *Inspection and acceptance.* The participant shall give reasonable advance notice to the Superintendent of the Government depot to which he will ship the hand-cobbed mica, stating the quantity he proposes to offer for sale to the Government under Program B. Upon such notification, the Government shall arrange for inspection of the hand-cobbed mica offered at the point of production or at such other points as are mutually agreed upon between the participant and the Government: *Provided, however,* That such inspection shall not be made beyond a three hundred (300) mile radius of the Government depot to which the participant will ship. After inspection by a Government inspector

the hand-cobbed mica will be accepted by the Government if in the judgment of the Government inspector the offered hand-cobbed mica will conform to the requirements of paragraph (b) of this section, and will be rejected by the Government if in his judgment it will not conform to such requirements. Such acceptance or rejection shall be final. If, after processing, the Government determines that any such accepted lot or lots of hand-cobbed mica delivered from a specific mine or deposit fail to yield block or film mica in accordance with the requirements of paragraph (b) of this section, the Government reserves the right to refuse to consider or accept further offerings of hand-cobbed mica from the particular mine or deposit from which such lot or lots were produced. At the time of acceptance of each lot of hand-cobbed mica provided for in this paragraph, the Government shall determine whether payment therefore shall be made under the provisions of paragraph (e) (1) or (2) of this section. Such determination shall be made on the basis of the expected yield and quality of block and film mica in each such lot of hand-cobbed mica.

(d) *Deliveries.* Hand-cobbed mica accepted by the Government under Program B is to be delivered as follows: (1) If shipped by rail, f. o. b. common carrier's conveyance at a railroad delivery point designated by the Government which will be as close as possible to the Government depot; or (2) if shipped by motor truck, f. o. b. Government depot. Each individual lot must contain exclusively either ruby or nonruby mica; mixed lots will be rejected. Hand-cobbed mica accepted by the Government under paragraph (c) of this section shall not be delivered in shipments of less than one thousand (1,000) pounds. Prior to shipment the shipper must give the Superintendent of the Government depot to which he is shipping reasonable advance notice with respect to the quantity to be shipped and the proposed shipping date. The Superintendent of the Government depot will then establish a shipping schedule with each shipper and will instruct the shipper how to prepare the hand-cobbed mica for shipment. The Government reserves the right to reject any hand-cobbed mica which has not been so scheduled and prepared.

(e) *Price and payment.* (1) The prices to be paid for each short ton of ruby and nonruby hand-cobbed mica yielding at least sixteen and two tenths (16.2) pounds of good stained or better quality and at least twenty-four and three tenths (24.3) pounds of stained quality block of film mica, delivered to and accepted by the Government in accordance with the provisions of this Section, shall be Six Hundred Dollars ($600) for ruby hand-cobbed mica, and Five Hundred Forty Dollars ($540) for nonruby hand-cobbed mica.

(2) For each short ton of ruby and nonruby hand-cobbed mica yielding less than sixteen and two tenths (16.2) pounds of good stained or better quality block or film mica, delivered to and accepted by the Government, in accordance with the provisions of this section, payment shall be made in part on the basis of the prices appearing in subparagraph (1) of this paragraph, adjusted to reflect the proportionately lower yield of good stained or better quality block or film mica. The prices appearing therein are predicated on hand-cobbed mica yielding sixteen and two tenths (16.2) pounds of good stained or better quality per short ton, and not less than twenty-four and three tenths (24.3) pounds of stained quality per short ton. The payments provided for herein shall be effected in the following manner:

(i) At the time of the Government acceptance provided for in paragraph (c) of this section, the Government shall estimate the yield in pounds of good stained or better quality in each lot of hand-cobbed mica delivered hereunder. Such estimated yield shall be divided by 16.2 pounds to determine the estimated number of short tons of hand-cobbed mica that may be paid for at the rate of $600 per short ton in the case of ruby hand-cobbed mica, and at the rate of $540 per short ton in the case of nonruby hand-cobbed mica. Promptly after the Government acceptance referred to hereinabove, the Government will make a preliminary payment based upon the above estimate.

(ii) Each lot of ruby and nonruby hand-cobbed mica shall be processed by the Government and the actual yield of good stained or better quality, and of stained quality shall be determined by the Government.

(iii) The actual yield of good stained or better quality, as determined in step (ii) above, shall be divided by 16.2 pounds to determine, on the basis of actual yield, the number of short tons of hand-cobbed mica for which payment is allowed at the rate of $600 per short ton, in the case of ruby hand-cobbed mica, and at the rate of $540 per short ton, in the case of nonruby hand-cobbed

mica. Multiply such number of short tons of hand-cobbed mica by $600 or $540, whichever is applicable.

(iv) Multiply the number of short tons of hand-cobbed mica, as determined in step (iii) above, by 2,000 pounds and by 4½ percent.

(v) Multiply the number of pounds, as determined in step (iv) above, by 27 percent.

(vi) Deduct the number of pounds, as determined in step (v) above, from the actual number of pounds of stained quality mica, as determined in step (ii) above, to determine the number of pounds of stained quality mica for which payment shall be made.

(vii) Calculate the dollar and cents value of the actual number of pounds of stained quality mica, as determined in step (ii) above, by means of the Price Schedule appearing in section 4 of this regulation.

(viii) Calculate the dollar and cents value of the stained quality mica for which payment shall be made by multiplying the dollar and cents value of the actual number of pounds of stained quality mica, as calculated in step (vii) above, by a fraction, the numerator of which is represented by the number of pounds of stained quality mica, as determined in step (vi) above, and the denominator of which is represented by the actual yield of stained quality mica, as determined in step (ii) above.

(ix) Add the dollar and cents figures, as calculated in step (iii) and step (viii) above. Deduct from the sum thereof the amount of the preliminary payment, as determined in step (i) above, and the actual cost of rifting and trimming of the number of pounds of stained quality mica, as determined in step (vi) above, to determine the final payment for deliveries under this subparagraph.

The aggregate of the payments under this subparagraph shall in no event exceed the product of $600 times the actual number of short tons of ruby hand-cobbed mica delivered to and accepted by the Government hereunder, nor more than the product of $540 times the actual number of short tons of non-ruby hand-cobbed mica delivered to and accepted by the Government hereunder, whichever is applicable.

This regulation, as revised, is effective immediately.

Dated: May 26, 1954.

EDMUND F. MANSURE,
Administrator.

[F. R. Doc. 54—4217; Filed, May 27, 1954; 2:36 p. m.]

Dr. FLEMMING. The premium price has been running about 300 percent above the market. Just what the total transactions are, I would have to check into that and supply it for the record.

The CHAIRMAN. Mr. Rains?

Representative RAINS. No questions.

Representative TALLE. No questions.

Senator BRICKER. No questions.

Senator ROBERTSON. I understand, Mr. Chairman, the doctor is familiar with this situation. It is the belief of the Junior Senator from Virginia that he has taken steps to meet that situation.

Dr. FLEMMING. That is right.

The CHAIRMAN. If Senator Dirksen comes in before the meeting adjourns, he may ask further questions.

Dr. FLEMMING. Mr. Chairman, I have prepared an outline which I shall use as a basis for my opening comments. I would like to say, first of all, that it is a pleasure to have the opportunity of appearing before this committee again to report on the progress of the defense mobilization program.

Several weeks ago I submitted to the committee a report covering the highlights of the recent activities of the ODM. If agreeable, Mr. Chairman, with you and the members of the committee, I would like

at this time to submit a copy of that report to be included in the record of this hearing.

The CHAIRMAN. That may be done.

(The information referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF DEFENSE MOBILIZATION,
Washington 25, D. C., March 28, 1955.

Hon. PAUL BROWN,
Chairman, Joint Committee on Defense Production,
Washington 25, D. C.

DEAR MR. BROWN: In accordance with a request from the committee staff, I am submitting herewith a report of activities of the Office of Defense Mobilization covering the period from July 1, 1954, through February 28, 1955. This report is designed to bring your committee up to date on activities of the Office of Defense Mobilization since submission of our last annual report which covered fiscal year 1954.

If I can be of further help to you in any way, please do not hestitate to call on me.

Sincerely yours,

ARTHUR S. FLEMMING, *Director.*

REPORT OF THE OFFICE OF DEFENSE MOBILIZATION TO THE JOINT COMMITTEE ON DEFENSE PRODUCTION FOR THE PERIOD JULY 1, 1954, TO FEBRUARY 28, 1955

I. INTRODUCTION

Continued actions of the Soviet bloc in various parts of the world, during the last few months, reinforced the conviction that the United States faces a prolonged period of international tension and unrest. As a nation, we shall never cease to do our utmost by diplomatic means to reach mutually acceptable solutions to the serious problems now facing the world. Nevertheless, we must continue to examine and strengthen our resources. Success on the diplomatic front, like success on the battlefield, is often in direct proportion to the strength a negotiating nation can muster.

Recent public disclosures regarding the effects of the hydrogen bomb highlight the importance of measures to minimize the effects of attack on our population and production centers. The unprecedented problems which would be created by thermonuclear attack on the continental United States have received major emphasis in the work of ODM during recent months. Although progress has been made, a great deal more effort will be required to advance our state of readiness. In the months to come ODM and the delegate agencies will intensify their work in this field.

ODM has continued to work on plans and programs to advance the Nation's ability to meet the demands of stepped-up or full mobilization without bomb attack. By comparison, these problems are simple and our state of readiness is high.

The economy of the Nation is in a vigorous and expanding condition; a large and experienced labor force is at work; our production capacity has been increased substantially during the past few years; mobilization programs now in operation advance our readiness in nearly all segments of industry far beyond that of any previous premobilization period.

The main problem in all preparedness work is to maintain a continuous review of our readiness programs in the light of changing conditions. Operating plans are being worked on constantly to assure our readiness for various levels of stepped-up or full mobilization.

In addition to describing work progress under many of ODM's regular programs, this report emphasizes work in the field of preparations for war mobilization following an enemy attack on the continental United States.

II. PREPARATIONS FOR ADMINISTERING A WAR EMERGENCY

A. Assuring continuity of government

In this thermonuclear age, organization, procedures, and working relationships required for successful war administration must be in operating readiness in advance of an attack. We must be prepared to convert a peacetime govern-

ment to one organized to meet wartime responsibilities in a matter of a few hours.

It is obvious to anyone that Washington, D. C., would constitute one of the most attractive targets in the event of attack. This suggests three possible defensive measures: permanent dispersion of key agencies to other parts of the country, permanent dispersion of key agencies to sites around Washington, or preparations for emergency relocation of these agencies to nearby sites in the event of war.

To achieve this by either one of the first two measures alone was not deemed feasible for many reasons. We believe that the best means of assuring continuity of government is by a combination of three measures wherever possible but with primary emphasis being placed on plans for emergency relocation. If an agency or subdivision that would be performing essential functions in time of war can perform its day-to-day functions removed from Washington, it may be desirable to move it from the Washington area or to a location within a sector selected for agency use under emergency conditions. Such actions are determined on an agency-by-agency basis. In September 1954, the Federal Civil Defense Administration relocated in Battle Creek, Mich. The Atomic Energy Commission has been making studies of possible sites for permanent location outside the Washington target area.

ODM has offered its assistance to the Congress in developing plans for congressional continuity in the event of attack.

Determination of essential wartime functions.—Planning for the continuity of government requires a survey of the Government's functions to determine what would be essential in the event of enemy attack. Responsibility for these determinations rests predominantly with the individual agencies. The role of the Office of Defense Mobilization is largely one of assistance, coordination, and monitoring. Initial determinations have been completed for the key mobilization agencies.

The identification of essential functions tends to highlight unresolved policy issues and helps in decisions concerning problems of relocation, the wartime organization structure of government, communication, and other supporting services, decentralization of executive direction, executive reserve job specification and training, emergency action steps, mobilization test exercises, and delegations of responsibilities to other agencies.

Maintenance of executive direction.—Continuity of government requires maintenance of the command function at all levels. Immediate steps needed vary with different agencies and departments, but they include—

1. Designation of successors to key officials of national, bureau, and regional offices in alternate nontarget areas, wherever possible.
2. Participation by designated field successors in the formulation of agency and bureau programs.
3. Predelegation of adequate agency or bureau program authority to regional offices and field establishments so they can meet requirements of an attack emergency.
4. Predelegation of management authority in personnel, procurement, property management, communications, field reproduction, and accounting and disbursements so field officials can carry out the program decisions which they must make under emergency conditions.

The Government agencies have been made responsible for taking necessary steps to assure maintenance of executive direction, with ODM providing guidance and followup. Considerable progress has been made on this program by the key mobilization agencies.

Emergency relocation of essential functions.—The key agencies have established emergency sites at a relatively safe distance from Washington to assure continued execution of essential Government operations with a minimum of disturbance. Employees designated to perform essential functions will operate at these sites in an emergency.

ODM develops policies, allocates relocation sectors, receives reports of progress, and coordinates overall relocation actions. It follows up to make certain that agencies have their relocation plans operationally ready by periodic tests. Considerable progress has been made in the last 8 months.

Measures for emergency relocation of essential wartime functions carried on in other target cities are being developed by various agencies. We expect this program to be stepped up in the near future.

B. Executive reserve

An executive reserve for the Office of Defense Mobilization was established on December 1, 1954, as a readiness measure to meet the potential needs of a national emergency.

A limited number of executive reservists, representative of labor and industry, were selected and invited to participate in a discussion of the purpose of and plans for the reserve. Following this meeting the general policies and principles of administrative management were drafted and final arrangements for official appointment and training of reservists are being completed.

While the program is a pilot operation for ODM only, consideration is being given to obtaining legislative authority for the appointment of similar executive reserve groups by all Government agencies having mobilization functions, to provide a nucleus of highly qualified men and women outside of Government available to institute and direct key elements of a national mobilization program.

C. Testing mobilization plans

To test the adequacy of peacetime planning for mobilization, ODM has been developing mobilization readiness exercises or "war games." The military use war games and field exercises as a means of testing new weapons and concepts, to determine the operational readiness of units, and to expose officers at all ranks to the problems and decision-making responsibilities of combat. We have adopted this technique for the same purposes in the field of nonmilitary mobilization readiness. War games are, in our concept, an exercise under which mobilization plans and readiness measures are tested under simulated war conditions. The purpose of the war game exercise is to test some of these readiness measures, particularly those related to organization planning and control procedures. It is also designed to be an important part in the training program of men who will constitute the core of the executive reserve.

Last spring an initial test was conducted in connection with FCDA's nationwide Operation Alert. The second test was conducted in November. It was designed as a command post exercise where some 25 to 30 key mobilization agencies actually operated for a period of 6 hours from their relocation sites. All areas worked on problems developed from a given set of conditions that included an attack against the continental United States. Each agency was required to determine its capability of performing its essential wartime functions under this set of conditions. The test proved to be a very effective means of evaluating the status of readiness of the individual agencies to carry out their assignments under emergency conditions.

Next summer it is planned to have another test in which the agencies will activate their relocation sites with a larger complement of personnel and conduct operations for a period of several days. At this time field and regional operations of the Federal Government will be included for the first time.

III. PREPARATIONS FOR MOBILIZING THE ECONOMY IN WARTIME

A. Production and materials measures

During recent months plans for production and materials controls have been focused on the kind of situation expected to exist during the immediate period (4 to 6 months) following a nuclear attack on the United States. Preliminary plans for production controls provide for the following actions:

(*a*) The resumption of normal production of goods and services would be encouraged, supporting the objective that dispersed populations must be encouraged to return to their homes and places of employment in undamaged areas as soon as possible after an attack. Safeguards would be needed, however, to prevent anticipatory buying and hoarding of production materials or increased production rates of relatively nonessential items. Some orders to provide such safeguards have been drawn up; work is proceeding on others.

(*b*) Production and construction needed to fulfill the most urgent and immediate postattack needs must be assured. These most urgent needs would include essential military and atomic-energy requirements, civilian relief and rehabilitation, and restoration and maintenance of essential services.

(*c*) Since central direction of the economy would probably be impossible for some time, alternative temporary authorities will be provided at regional, State,

and local levels, to coordinate mobilization field activities of the Federal agencies and to resolve conflicting demands on scarce industrial resources available in these areas.

(*d*) The authority and expediting assistance provided to industry during previous emergencies by the industry divisions of a civilian production agency would probably be inoperative at this point. Substitute means will be provided to assist manufacturers in maintaining an adequate flow of essential materials. components, and subassemblies.

(*e*) To permit central programing direction of the economy officials and staff must be safely located and equipped to receive information and appraise the capabilities of the surviving industrial machine; obtain revised postattack requirements to be satisfied from these surviving resources; and make decisions on the production programs that are to be undertaken. The continuity of government program is designed to assure this.

(*f*) A production and materials controls system must be ready to translate these program decisions quickly and effectively into production accomplishments. The Defense Materials System is being maintained to serve this purpose. Other related production and allocation orders are being developed.

The major part of future planning and development work will be done by the delegate agencies. For this reason an interagency group, composed of the principal production officials of these agencies, will be established to aid in the development of policies and to guide the development of the program.

These plans must go beyond mere paperwork and must actually designate officials, equipped with automatic authority and instructions, to take required actions without direction from the seat of government. Far greater attention by Government and industry must be given to the problems that would arise following attack on the United States—problems involving disruption of normal communications, transportation, and power, and loss of the labor force either through direct injury, dislocation, or the needs of the armed services. The completion of the program contemplated and its effectiveness in event of an attack will depend on the emphasis and staff work given by the delegate agencies and by industry participation.

B. Mineral mobilization planning

Although stockpiling is much further ahead than at the start of World War II and the Korean war, there remains the very important area of mineral mobilization planning where detailed work is now receiving renewed emphasis.

We are taking steps to enable us promptly to ascertain the materials position of the United States immediately after an attack, including the extent of damage to major materials producing facilities and the critical components needed for repair and rehabilitation. The flow of raw materials from mine to consumer must be maintained. If, for example, a major smelter is destroyed by sabotage or direct attack, it may be necessary to divert ores and concentrates normally treated by that smelter to other facilities for prompt handling. The dependence of many refining operations on electric power, as, for example, aluminum, copper, magnesium, and titanium, will require drastic action to maintain materials production in the event that normal sources of electric power are damaged or destroyed.

Movement of many essential materials may be a serious problem in wartime, particularly if key transportation centers are damaged or destroyed. Hundreds of millions of tons of rail traffic are devoted to raw materials, coal and iron ore being two major items. Water transportation on the Great Lakes, the rivers, and through major ports, might be disrupted by damage to key points. It will be necessary to channel maintenance, repair, and operating supplies to essential producers in time of war to provide for continuity of operation, and it is also necessary that skilled workers and technical personnel in materials producing industries be kept at their posts.

The ability of the material-producing industries to survive atomic attack and to assist in the defense of the United States will depend in large measure on the steps taken and the plans developed in advance of war.

C. Stabilization measures

Among the several types of stabilization measures which might be required to support a wartime economy are—

(*a*) Indirect controls including fiscal, special war tax, monetary, and credit measures which deal with the sources of wartime inflation;

(*b*) Direct controls over prices, wages, rents, and other types of income and costs;

(*c*) Direct controls over the distribution of consumer goods.

In addition, for effective operations, stabilization measures must be coordinated with allocation, priority, and other controls in many fields such as production, materials and manpower.

The 83d Congress revoked the legislation authorizing direct controls over prices, wages, rents and credit. Since July 1954, work has been continued to revise and keep up to date draft legislative materials which would be required to initiate an emergency stabilization program. A draft freeze regulation or Executive order to implement possible freeze action has been kept up to date. In addition, some drafts have been prepared of stabilization bills that could be considered by the President and the Congress if events suggested the need for an extended stabilization program. However, several important provisions of such draft stabilization bills are still unresolved.

Basic legal authority for rationing measures exists in the priorities and allocation title of the defense production act and its amendments. This authority is proposed in greater detail in the draft stabilization bills. In addition, draft Executive orders have been prepared to implement the rationing authority and to provide for its delegation by the President.

Work progressed over the past half year in connection with selected "tailored" price regulations which could be used to replace a general price freeze action in certain industries. Industry consultants from fields such as restaurants, department-store retailing, automotive parts, and scrap metals have made contributions in this connection. Similarly, some work has been done in studying and devising proposals for a wartime wage control policy. Planning work in the rationing area has resulted in the extension and revision of a "package" of antihoarding orders. Their purpose in an emergency would be to conserve goods and buy time while formal rationing programs were being instituted.

A study has been completed outlining the problems involved in the peacetime printing and stockpiling of ration currency as a readiness measure. This study covers cost, time, and storage factors.

Future stabilization planning by ODM envisages two separate approaches: One for the attack situation, and one for the longer term mobilization situation during war. Obviously, the economic consequences of attack pose wholly new problems and require much work. At the same time, further development of a longer term more orthodox stabilization plan will involve enlisting the help of qualified people or organizations in many fields so that, to the extent possible, more effective and equitable controls might be instituted in any long-term mobilization requiring full use of stablization measures.

Major efforts are being made to develop recommendations regarding (1) the standards of equity that should be applied to wartime agricultural prices (the parity problem), (2) pricing standards for business, (3) the standards for use in stabilizing wage and salary rates, (4) the problem of administration in connection with wage disputes, or wage and salary stabilization, (5) military goods pricing and exemptions, (6) the special problems in rent stablization and rationing operations, and (7) the development of tentative legislation embodying conclusions reached and approved.

D. Manpower measures

Manpower programs have been developed for several assumed mobilization levels in order to have in being manpower plans which would be reasonably adaptable to any type of national emergency. Manpower is readily available for the maintenance of the present level of mobilization for an indefinite period of years and for support of a high-level, expanding economy. Present policies, programs and organizational structures are adequate. At a stepped-up level of mobilization, short of all-out mobilization, manpower requirements could be met without causing significant shortages of nonspecialized personnel, but more serious problems would occur in relation to the supply of scientific, technological, and skilled manpower. The third plan is based upon full mobilization of a conventional type but with the most accurate appraisal possible of the changes which would be required as a result of radically changed industrial and military technology since World War II.

Certain general measures have been developed which have important manpower implications in the event of an attack on the United States with thermonuclear weapons. Obviously, all improvements in early warning systems and continental defense assist the preservation of manpower. Programs of dispersion and decentralization and a general trend toward suburban development have resulted in additional protection of the labor force. The development and testing of evacuation plans is making progress in some potential target cities. Newly developed techniques of bomb-damage assessment promise to provide a reasonably factual base upon which further plans for postattack manpower administration can be based.

Perhaps the greatest single asset at present for coping with the manpower problems of a postattack situation is found in the extensive and widely dispersed field organizations of the principal agencies having manpower functions: The Department of Labor, the Department of Defense (and the Departments of the Army, Navy and Air Force), the Selective Service System, and the Department of Health, Education, and Welfare.

E. Transportation measures

On September 15, 1954, a Coordinator of Defense Transportation was appointed to review and develop mobilization plans in the transport field for an orderly transition of the industry from peacetime to emergency operating conditions, and to coordinate the development of policies designed to strengthen the transport industry so that it can meet the mobilization needs of the nation.

Areas of special concern include: overall control of transportation under war conditions; control of traffic to, from, and within port areas; transportation under conditions of attack on the continental United States; the adequacy of railroad equipment to meet wartime requirements; and the adequacy of available merchant shipping and shipbuilding facilities.

Interagency agreement has been reached in principle on plans for the organization of transportation control agencies in the event of war. In addition to the regular peacetime agencies, the Defense Transport Administration, National Shipping Authority, and Defense Air Transport Administration, all created under the Defense Production Act, continue to function in their respective areas and are available for expansion to meet a major emergency.

Plans for port utilization, under both normal and attack conditions, have been brought near completion during the past 6 months and should be ready for formal approval within 60 days.

To give a basis for planning for national and local transportation under attack conditions, a survey of 30 primary targets areas will be made by a task force of 3 representatives from Federal Civil Defense, Department of Defense, and Defense Transport Administration. From this survey a realistic manual of transportation information and instructions will be developed for use in all target areas.

F. Telecommunications measures

Plans as to the size and nature of the control organization which might be required during a war must be highly flexible in order that they may be quickly adapted to the specific emergency. Current planning envisages delegation of authority now, by means of self-triggering orders, which would enable delegate agencies to make ready their emergency procedures and authorize placing such procedures into immediate effect upon attack. During the immediate postattack period it would be necessary to make out with the structure that now exists. The nucleus of a wartime organization is in being and members of the executive reserve, drawn from the telecommunications industry, would provide for expansion at the policy level. No field organization is contemplated for the first 90 days of a mobilization period. It is planned, however, to direct our domestic operations through the existing industry organizations which are well experienced in operations during abnormal conditions and in restoration of damaged plant facilities.

G. Censorship.

In October, ODM established an Interagency Committee on National Censorship Planning, to provide in Government a forum of all interested agencies to advise and assist in the development of censorship plans, as well as to review completed plans from time to time to assure adequacy with changing conditions.

Preparation and clearance of a voluntary censorship code for the public media is being stepped up for interim use in the event of emergency, while work is continuing on revised permanent codes for the press, radio, television, and motion pictures. An advisory committee, composed of members of the public-media industries and headed by the World War II Censorship Director, will advise ODM with respect to acceptable voluntary codes.

Other censorship measures are in a high state of operational readiness.

IV. PROGRAMS TO STRENGTHEN THE MOBILIZATION BASE

A. Production

Wartime supply and requirements.—Work on the development of mobilization requirements and supply capabilities for 42 detailed shapes and forms in copper, steel, and aluminum has been underway in the Department of Commerce for some months. Preliminary results indicate that there will be shortages in cold-finished bars and wide steel plate. The requirements for shell quality steel bar and armor castings by the Department of Defense appear to be beyond the present capacity of our steel industry. In aluminum, shortages are likely to appear in heavy extrusions and forgings, but these shortages would be more susceptible to remedy than the shell steel problem.

Work has progressed steadily on the reexamination of stockpile requirements based on the results of the first feasibility test. However, there are still a considerable number of materials which must be reviewed.

Lack of bomb-damage estimates on industrial installations has prevented a realistic appraisal of material sources which produce large percentages of individual materials.

Plans for a second-round feasibility test, which will include bomb-damage assessment, are in process of development. It is hoped that this work will get underway in the next month or two and that preliminary results will be available by the end of 1955.

Maintenance of the mobilization base.—Defense Mobilization Order VII–7, issued on August 25, 1954, provides that the Department of Defense, the Atomic Energy Commission, and the Maritime Administration shall select for their mobilization base those facilities which meet the criteria set forth in the order. The order also provides for the maintenance measures to be undertaken by the agencies named with respect to the facilities selected.

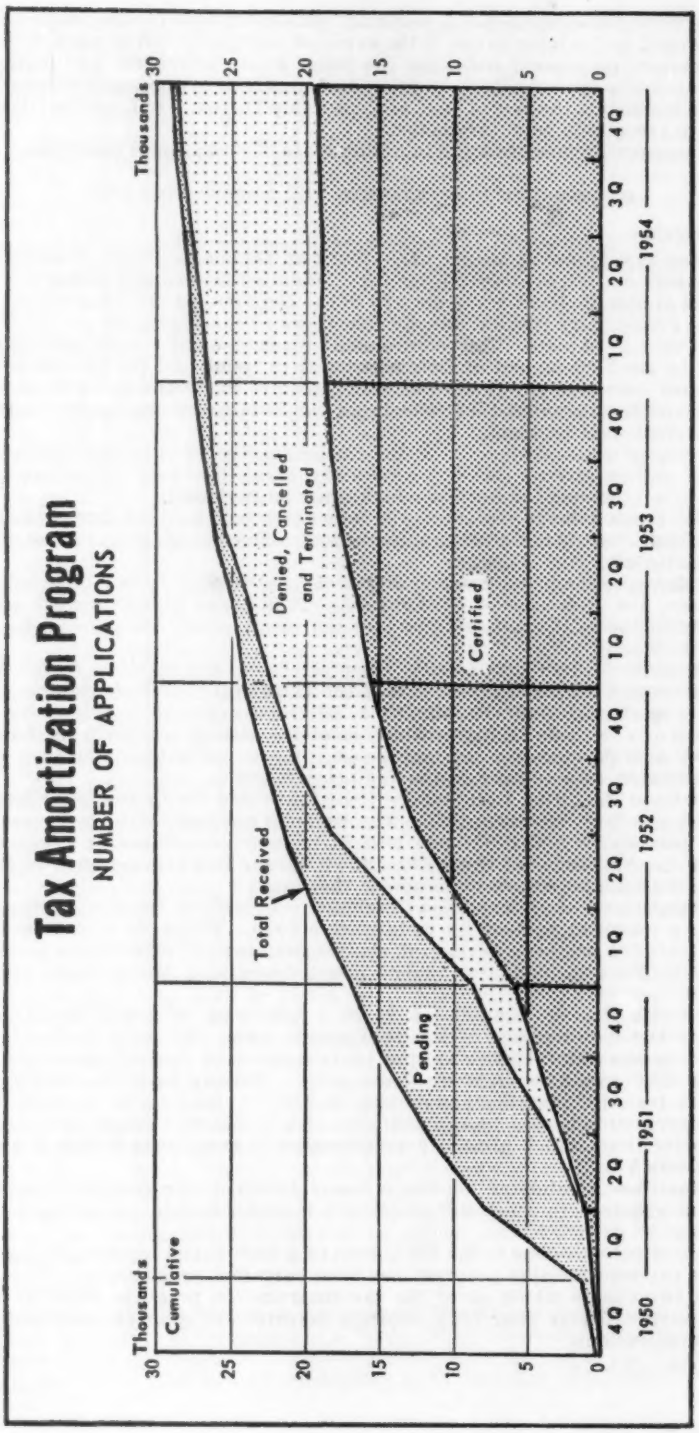
The Defense Facilities Maintenance Board provided for by the order has been organized and three meetings held. The agencies affected by the order reviewed existing procedures and developed revised or new procedures as necessary to carry out the provisions of the order. Each agency has also reported regarding progress, status, and future plans under the order.

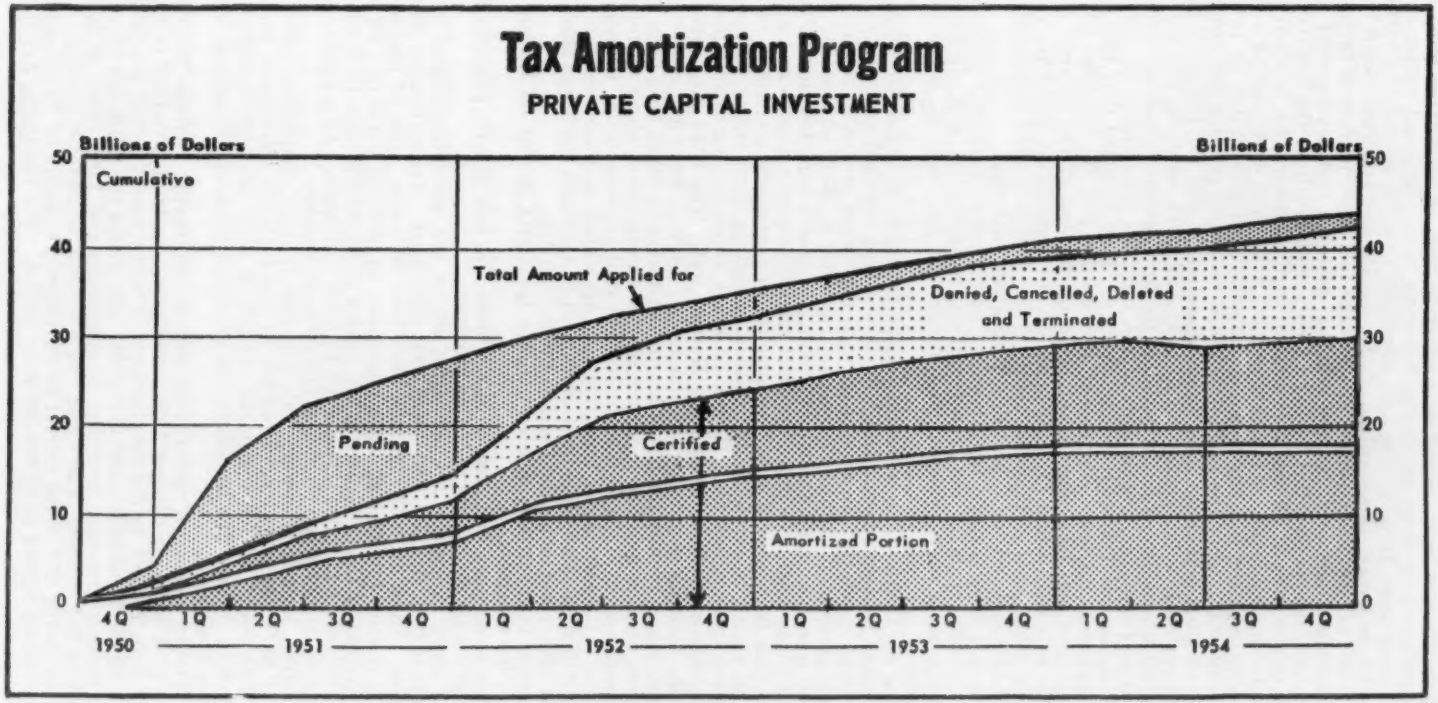
The Department of Defense has developed a procedure for designating facilities as an essential part of its mobilization base. While no consolidated list of such facilities has been developed, the Department of Defense has knowledge of such facilities through its current procurement and procurement planning activities.

The Atomic Energy Commission is in a somewhat different position with respect to the maintenance of its mobilization base. As construction is completed, its production facilities are put into operation at approximately the same levels as they would be in a war emergency. Private facilities which make equipment for AEC installations do not, in general, need to be maintained for future construction needs. As a result, the Atomic Energy Commission identified only two facilities which present a maintenance-base problem within the objective of DMO VII–7.

The Maritime Administration has a complete list of the facilities, tools, and equipment required to meet full mobilization requirements, including capacity expansion.

Tax amortization.—Due to the fulfillment of a substantial number of expansion goals the tax-amortization program has been curtailed considerably. There are attached two charts which cover the tax-amortization program since its inception, through calendar year 1954, showing private-capital investment and numbers of applications.


Tax Amortization Program
NUMBER OF APPLICATIONS
Thousands
Cumulative
30
25
20
15
10
5
0
Total Received
Denied, Cancelled and Terminated
Pending
Certified
4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q
1950
1951
1952
1953
1954



Based on progress reports received as of September 30, 1954, the total value of all projects completed to the extent of being essentially ready for operation amounted to $16.7 billion.

Certificates are now being issued on a selective basis in accordance with open expansion goals and cover primarily the following items: Railroad rolling stock, including locomotives, freight cars, and passenger cars; miscellaneous railroad facilities such as freight-classification yards; metals and minerals; solid fuels, including coke; natural gas pipelines and storage facilities; petroleum facilities, including storage, transportation, and refining; research and development laboratories; miscellaneous facilities having a direct relationship to the Department of Defense or the Atomic Energy Commission, such as electronics, aircraft production, and ordnance items. As of February 23, 1955, there were pending a total of 405 applications for tax amortization amounting to $1.8 billion in private capital investment. As of the same date there were also pending 285 requests for postcertification actions such as scope amendments and extensions of time.

Plans are currently being worked out to decentralize the receiving and processing of all applications for tax amortization to the four delegate agencies; namely, Department of Commerce, Department of the Interior, Department of Agriculture, and the Defense Transport Administration. It is expected that this delegation of authority to issue certificates of necessity and the transfer of the related functions will be accomplished prior to the end of the current fiscal year. ODM will still retain the responsibility for regulations and policies on the program, which will include the approval of expansion goals recommended by delegate agencies and the approval of percentage patterns.

Since the last report, there have been no new expansion goals established. However, existing goals in the transportation, warehousing, and electrolytic tinplate fields have been reviewed and revised in the light of present-day requirements.

Borrowing authority.—The borrowing authority made available by Congress is $2.1 billions. Of this amount $1.5 billions has been certified and reserved as probable ultimate net cost in connection with expansion programs related primarily to strategic and critical materials. In addition, $300 million has been certified and reserved to finance defense loans. It is still expected that interest earned on defense loans will probably offset administrative expenses and probable losses. The borrowing authority continues to contribute materially to the expansion of supply of strategic and critical materials, thus aiding fulfillment of certain stockpile objectives. It was of great value in overcoming special defense-production problems during the Korean war. The fund also aided in expanding the capacity to produce machine tools. Defense loans and contractual arrangements which require the use of borrowing-authority funds have been used only in those cases where the incentive of tax amortization alone would not satisfy defense needs. It is significant to note that private-capital investment aided by the tax-amortization incentive has amounted to approximately $30 billion in certified projects while the Government has utilized much less than the $2.1 billions authorized under the Defense Production Act.

This program is covered in detail in ODM's Quarterly Report on Borrowing Authority to the Congress.

Production equipment and components.—Since the last report, progress has been made on a number of aspects of this program.

(1) Pool order program: All deliveries under the machine-tool-pool-order program initiated in October 1951 have been completed. Approximately 87,000 machine tools, valued at $1,155 million, have been delivered. Out of this total, all but 832, costing $10,900,000, were purchased by private industry. Of the 832 tools acquired by the Government, 152 valued at $1,991,000 have been resold, and 7 tools valued at $163,000 transferred to other programs. As a result, only 673 tools valued at $8,700,000 remain in Government storage.

(2) Industrial leasing program: This program is near completion, since all except 10 of the 2,744 tools contracted for by the GSA for subsequent leasing have been delivered. All tools acquired are out on lease with the exception of 246 tools now in storage due to completion or cancellation of the defense work in which they were used.

(3) Nondefense leasing of Government-owned equipment: Defense Mobilization Order VII–4, issued in October 1953, is designed to establish Federal Government policy with respect to the management of Government-owned production equipment. In the 17 months since this order was issued the ODM has received nondefense leasing proposals involving 63 companies and 1,082 items of equipment valued at $14,900,000. The ODM has approved nondefense leasing to 11 companies, involving 377 items valued at $2,800,000; requests of 52 companies involving 158 items valued at $7,500,000 were denied. The remaining 547 items

valued at $4,577,000 are accounted for by withdrawals after submission. It is evident that only a minor fraction of a percent of the 500,000 items which the Government is estimated to own, have been leased for nondefense production purposes.

As required by this order, the ODM Director has recently called for an operations report from the principal equipment-owning agencies of the Federal Government for the year ending March 15, 1955. These reports are to be received by April 30 and will include factual information on inventories held, the extent of leasing, sales during the year, and suggestions on improved management of this large Government reserve.

During the last half year the ODM has obtained and reviewed a study made by the American Machine Tool Distributors Association on the rates of rental charged by commercial leasing concerns, reduced to simple interest per annum for comparative purposes. This study reveals that commercial rates range from 7 to 33⅓ percent but that the average charge is from 12 to 19 percent, increasing with the length of term of lease. The customary rental charge for Government-owned equipment leased to private industrial establishments for defense and defense-supporting contracts is 1 percent per month of the acquisition cost of the equipment. This charge expressed in the same terms used in the industry study results in a rate of 16.3 percent for a typical 5-year lease. Accordingly, it appears that Government rates are quite comparable to charges prevailing in competitive enterprise and, therefore, appear to be adequate.

(4) Elephant tool survey: The ODM has initiated a survey of all known elephant tools in the United States, to determine whether there is a need for increasing the Government-owned reserve of these large tools, and to determine the kinds and quantities needed, if any, to meet full mobilization requirements. The Business and Defense Services Administration and the Small Business Administration have been collecting and tabulating the relevant facts. Tabulations completed cover 71 companies and 133 plants and reveal a stock of 867 tools, one-quarter of which are less than 10 years old and one-half less than 20 years old. Approximately one-half of these are reported to be in good condition by the respondents and approximately seven-eighths to be in fair or better condition. The ODM has recently requested the principal equipment-owning agencies of the Government to report similar information for all Government-owned elephant tools. When these data have been received and analyzed a determination will be made with respect to the necessity for any further program on elephant tools.

(5) Components: Since 1952 the Departments of Commerce and Defense and the Atomic Energy Commission, in cooperation with private industry, have undertaken a number of requirements-capacity studies of components expected to be critically deficient under full mobilization. ODM coordinates these studies and develops action programs to overcome deficiencies.

Thirty-nine component areas have been set up for study, requiring 58 different study groups. Six studies have been completed to date.

Based on these analyses there appears to be ample capacity for automotive steering gears, automotive universal joints, automotive wheels, and fractional horsepower motors. Two studies—high-pressure steam boilers and turbines and turbine gears—show the existence of a critical shortage in capacity to meet full mobilization requirements.

Use of the borrowing authority under the Defense Production Act to overcome, in part, the indicated deficiencies has been approved. Procedures for using the borrowing authority have been issued. To the extent possible in each case, sources of funds other than the borrowing authority will be sought.

(6) Advisory Committee on Components and Production Equipment: A committee has been established (February 1955) to review Federal policies and programs with respect to machine tools, components, and production equipment. This committee will advise the Director of the Office of Defense Mobilization concerning policies and programs required to assure adequate supplies of components, tools, and other production equipment, and the adequate maintenance thereof, to meet mobilization needs. A number of prominent industrial, military, and Government leaders have accepted appointment to this committee and the group is about to begin its task.

Electric power.—During 1954, class I utilities brought in 12.3 million kilowatts of new generating capacity, raising dependable capacity of the industry, under adverse water conditions, to slightly more than 101.3 million kilowatts as of the end of the year. Under average water conditions, the dependable capacity then was 103.3 million kilowatts.

Scheduled additions during the current calendar year, which are estimated at 12.6 million kilowatts, will place total capacity at the end of 1955 at about 113.9 million kilowatts under adverse water conditions, or approximately 116 million kilowatts under average water conditions. The latter capacity would equal the expansion goal for completion by the end of 1955 as last revised in August 1952. The goal was based on capacity under average water conditions.

It would appear that earlier slippages resulting from delayed equipment deliveries, materials shortages, and priority problems were overcome in 1954. The improved construction situation, coupled with a presently estimated lower percentage increase in loads than was previously forecast, gives the following percentage margins of capacity over peak loads, under adverse and average water conditions:

	Adverse	Average
Dec. 31, 1954	19.2	22.5
Dec. 31, 1955	19.5	22.1
Dec. 31, 1956	19.1	21.4
Dec. 31, 1957	14.6	20.0

These margins compare favorably with the 15 percent generally accepted as necessary to provide reasonable standards of service in peacetime.

The capacity outlook is adequate for the existing needs of the economy under partial mobilization. Steps have been taken to obtain further power studies to indicate the probable mobilization base requirements under bomb-damage assumptions.

The above analysis of the power situation in terms of national totals and national margins overlooks the fact that potentially serious situations may exist in certain regions. Additional consideration will be given during the next 6 months to specific regional problems.

Petroleum.—Under the direction of the Departments of Interior and Defense, the Military Petroleum Advisory Board is completing a new and comprehensive study of free-world supply and demand for petroleum in wartime. This study will be used for programing to meet deficiencies as may be shown in production, refining, transportation, and storage of petroleum. The work on this report, which is one of the most detailed and complete of its kind, is expected to be completed by the Military Petroleum Advisory Board the latter part of March. These data will furnish the Government the basis for up-to-date programing needs for the entire petroleum field.

B. Materials

A major component of the defense-materials program is the stockpile program which involves the procurement and storage of several billions of dollars worth of strategic and critical materials. This program is covered in detail in the semiannual stockpile report to the Congress and is therefore not included in this report.

Mineral policy.—In October 1953 the President established a Cabinet Committee on Minerals Policy, chaired by the Secretary of the Interior, and comprising the Secretaries of State and Commerce, and the Director of the Office of Defense Mobilization. The Committee was requested to (1) make sure that the United States has available mineral raw materials to meet any contingency during the uncertain years ahead; (2) make sure that the United States can meet the ever-growing mineral requirements of an expanding economy; and (3) preserve the added economic strength represented by recent expansion of facilities by the domestic mining industry, through policies that would be consistent with other United States national and international policies.

Several of the recommendations of the Minerals Policy Committee dealt with security needs of the Nation. These included the maintenance of the mobilization base, the establishment and acquisition of new long-term stockpile objectives for metals and minerals, better and closer government-industry relations, and a variety of other steps intended to strengthen the mineral industry. A number of the basic recommendations of the committee have already been put into effect.

C. Transportation

The ability of the railroad system to carry full mobilization loads has been lessened by the reduction in the number of new cars and locomotives ordered or placed in service. In 1954, about 70,000 freight cars were scrapped, and only 28,000 new cars delivered, for a net loss of 42,000 cars. Diesel locomotives continue to be ordered, but the retired steam locomotives are generally scrapped when they require general repairs in which it is difficult, if not impossible, to obtain heavy spare parts. Passenger cars suitable for troop movements are decreasing and fewer being built. An ODM Consultants Committee has been studying these problems and is expected to report within 60 days.

The requirements for shipyards and merchant ships under conditions of war are likewise being studied by a special ODM Committee which is expected to report within 60 days. Plans are being developed for a control agency designed to coordinate the utilization of ships and parts.

In the field of air transport, preparations are continuing on the civil reserve air fleet, which will supply commercial aircraft under air line management and be available for service to the Department of Defense on short notice. The arrangements are already workable and further technical and legal details are currently being worked out.

D. Telecommunications

An inventory of our total telecommunications capacity has been under preparation for the past year and includes both commercial and Government-controlled domestic and transoceanic facilities. This compilation is a continuing function, and the information is being reduced to a machine-record system. Emergency requirements of all Government agencies are being assembled so that they may be evaluated and weighed against facilities available or expected to be available after attack. This information will provide a factual basis for establishing whatever system of priorities may be required for handling essential traffic until assessment of the size and nature of the emergency can be made. Thereafter the plan can be tailored to fit the need.

Our total domestic telephone capacity today is about 40 million intercity circuit-miles. Total essential Government requirements, both military and nonmilitary, during a mobilization period, would utilize only a relatively small proportion of this. Our total domestic telegraph capacity is about 10 million intercity circuit miles, and here again it is estimated that the total essential Government requirements during a mobilization period would utilize only a small proportion. The present overall domestic capacity for telephone and telegraph intercity use has increased more than tenfold since the beginning of World War II and has doubled since the outbreak of the Korean war.

Much has been done to reduce the vulnerability of our domestic telephone and telegraph system and additional work is underway. These measures are being undertaken by private industry with no Government financing. This program is flexible and is progressing in step with the rest of the mobilization effort.

E. Manpower

The Committee on Manpower Resources for National Security reported in January 1954 that the manpower resources of the country are probably sufficient for any war into which the Nation might be forced. These conclusions are still valid. For the immediate and long-term future, the prospect indicates increasingly larger numbers in the military age groups. There will exist, however, continuing shortages of highly skilled personnel, particularly scientists and engineers, and the utmost caution will be required in their allocation and utilization. Moreover, the increasing numbers of young people in the school ages will put an increasing strain on the educational facilities of the country, with the inevitable result, unless appropriate measures are taken, of adversely affecting the quality of training provided. This is a particularly serious problem since the increasing technology of modern warfare requires an educational attainment considerably higher than in the past.

The Special Interdepartmental Committee on the Development of Scientists and Engineers completed its work in December and its report has been submitted to the President.

"Private industry has the major responsibility for training skilled craftsmen and the Department of Labor has a special program to assist industry in developing training which will produce skilled craftsmen. This program includes

keeping industry advised of the skilled occupations in critical short supply and in stimulating industry to increase the numbers of apprentices in training for these skilled occupations."

Military manpower.—Development of the proposed National Reserve Plan was completed during the last 6 months by the Department of Defense and ODM with the cooperation of other agencies.

As result of a comprehensive review of student and occupational deferment practices by the ODM Manpower Policy Committee and the Committee on Specialized Personnel, recommendations were made to continue the undergraduate student deferment program under the present criteria and to strengthen the graduate program. Accordingly, an Executive order issued September 20, 1954, raised the graduate deferment criteria to a more realistic level, and a Selective Service System bulletin to local boards emphasized that graduate students possessing acceptable scholastic qualifications should be permitted to complete their education to the doctorate level without interruption for military service.

The Commerce and Labor Departments developed new lists of currently critical occupations and essential activities based on the current and prospective mobilization levels. Essential activities were reduced from 25 to 10 and the critical occupations were reduced from 62 to 32. The lists released March 2, 1955, will be utilized by the Selective Service System in considering applications for occupational deferment. The two lists are flexible and recommendations will be made from time to time by the Interagency Advisory Committee on Essential Activities and Critical Occupations to keep the lists current in relation to any future changes in plans for mobilization. Interim standby lists of essential activities and critical occupations have also been prepared and can be issued immediately in the event of full mobilization.

Dr. FLEMMING. From time to time I may want to refer to parts of it as we proceed with the hearing.

Before getting into the details of our program, I would like to say a word regarding our philosophy relative to the role of the ODM.

The mission of the ODM broadly stated is synonymous with the objectives of the mobilization program itself. It is charged with insuring that necessary preemergency preparedness actions are taken in a timely and economic manner; second, that in the event of war we have available materials and other critical resources in such amounts as to permit full and rapid conversion of the Nation's industrial and civilian strength to meet war requirements; and three, that the Government is ready to act in an emergency situation in a prompt and consistent manner on all mobilization fronts.

The ODM accomplishes its mission largely through the planned delegation of mobilization readiness activities to existing Government departments and agencies. It delegates specific authority to act, under policies established by ODM, to other Government agencies. Its staff works with these delegate agencies in the detailed development of their tasks, and then it establishes action objectives, such as stockpile goals and industrial expansion targets.

By following this approach, ODM has remained a small staff agency. The success of this approach depends, of course, upon providing sufficient support to the agencies to which we have delegated authority to act, so that they will have the resources to do the mobilization job.

As we move into the area of mobilization readiness planning, I would like to say that we do keep in mind the basic assumption that was given to the country, or has been given to the country a number of times in recent years by President Eisenhower; namely, that we are in an age of peril, an age of peril that may run for 40 to 50 years.

It is clear, I am sure, to all of us that situations could arise during this period ranging all the way from a relatively slight increase in

our current defense mobilization activities, to a general mobilization following an attack on the continental United States.

We are developing action plans to cover these various contingencies. These plans receive frequent reviews, not only by our own staff in the ODM, but also by members of the Defense Mobilization Board at its regular weekly meetings.

I think the members of this committee are aware of the fact that the Defense Mobilization Board is advisory to the Director of the ODM, and is made up of seven cabinet departments in addition to the heads of such agencies as Federal Civil Defense, the Board of Governors of the Federal Reserve System, and the Foreign Operations Administration.

We are also using in connection with the review of these plans the war-game technique to determine the practicability and techniques of the plans. For example, the members of the committee have noticed that the Federal Civil Defense Administration is going to run a nationwide test on June 15 and 16. We are going to tie in with that test and test out our emergency relocation plan for a period of 3 days. We are going to determine whether or not it is possible for the Government to carry on its essential functions at those relocation sites that have been selected during that 3-day period.

Next I would like to discuss with the committee some of the programs which are connected with the development and the maintenance of the mobilization base.

Of course, the first step in building our mobilization base is to determine the requirements, and, as the members of the committee appreciate, that has not been an easy task at any time in the history of mobilization planning in our country.

Last year we completed an extensive supply requirements analysis to obtain information about the adequacy of our present base. The Defense Department, for example, provided or determined requirements for a thousand major military hard-goods items.

I might say that in the event of general mobilization those items would account for about 80 percent of our expenditures—our total expenditures.

At the same time, other delegate agencies, such as the Department of Commerce, developed information on defense or war supporting items and items needed to support a rock-bottom civilian economy. The requirements information was then related to available information regarding supplies in order to help us identify the gaps in our mobilization base. This analysis provided the basis for translation into requirements for stockpile material, developing a program for dealing with those critical components which are subject to long lead-time capacity limitations, or other resource bottlenecks, developing requirements and supply capabilities for various shapes and forms in copper, steel, and aluminum, and developing the manpower requirements necessary to carry out the program.

The Department of Defense is now working on the development of new requirements information based upon changes in strategic plans. The Department of Defense is developing its requirements as a part of its regular budget process; the first figures will be developed in connection with the fiscal 1957 budget and will be available to us

undoubtedly in the fall of this coming year. That is, 1955, the calendar year, and thereafter they will be kept current on an annual basis.

As we determine the requirements in various fields, we, of course, attempt to develop programs which will result in the expansion of supplies through the use of financial incentives; in particular the utilization of tax amortization and the borrowing authority provided in the Defense Production Act.

Congress, as the members of the committee know, has also authorized a borrowing authority fund to be used in making loans for defense purposes, and to expand the production capacity and supply of minerals, metals, and other materials by purchase for Government use or resale.

A large portion of the post-Korean defense buildup has been furnished by private capital, with nothing more than tax amortization as an incentive, except in connection with strategic and critical materials and selected machine tools where borrowing authority has been used.

During this period private capital has been certified for investment in defense facilities amounting to about $30 billion. Only 60 percent of this overall actual investment has been subject to the fast depreciation writeoff. In other words, about $18 billion.

Expansion goals have been established only in those areas of industry where there was or is a shortage, and a defense relationship.

As goals are filled they are closed. A total of 224 goals have been established to date; 136 are closed, 1 is in suspense, and 87 are still open.

There is no question at all but that the certificates of necessity issued in connection with the tax amortization program have been a great help in encouraging private financing, thus lessening the burden of direct Government financing or Government loans.

The interest on the money borrowed by the Government to replace deferred taxes during any 60-month period is, of course, an ascertainable cost to the Government. On the other hand, it is not ascertainable just how much expansion would have been lost or delayed without the tax amortization incentive. We feel that whatever the cost of tax amortization to the Government there appears to be no cheaper way to encourage expansion of productive capacity and supply which is identified as, and limited to, the definition "necessary for national defense."

There are some areas of our industrial complex where requirements for mobilization have not been met. Open expansion goals still exist in these areas, and tax amortization continues to be offered. Since tax amortization is the least expensive incentive which can be offered its continued use is necessary and must rest on the determined necessity to fulfill open expansion goals.

In some instances, however, it will be necessary to utilize incentives other than tax amortization to fill open expansion goals. Detailed studies are being made now to evaluate the deficiencies represented by unfilled open expansion goals, and to uncover any other deficiencies which may exist.

To illustrate this problem of incentives to obtain needed expansion, I would like to discuss the problem of components. The Departments

of Commerce and Defense, and the Atomic Energy Commission, have underway under ODM leadership 58 studies to determine mobilization deficiencies in selected components and to recommend action for removing any indicated deficiencies. Eight studies have been completed. Six of the studies, namely, those for fractional horsepower motors, automotive steering gears, transformers, switch gears, automotive universal joints, and automotive wheels, show that there is probably ample capacity to meet mobilization requirements.

The CHAIRMAN. We will recognize the Senator from Illinois. Senator Dirksen, I understood you have a question?

Senator DIRKSEN. I have just a question or two.

Senator ROBERTSON. Before you start, Senator:

I have read through your statement, Doctor, and I commend the statement. I am sorry I cannot stay for the discussion, but I am sure the members of the committee will ask some questions about your suggestions about dispersal and your suggestions about not concentrating the manufacture of new weapons in target areas, so to speak.

Mr. Chairman, I am sorry I have to leave.

The CHAIRMAN. All right, Senator. I am sorry you cannot stay.

Senator DIRKSEN. Mr. Chairman, we have a subcommittee on agricultural appropriations underway on the Senate side. I broke away very briefly to ask my old friend, Dr. Flemming, just 1 question or 2.

Dr. Flemming knows, I think, how interested I am in the development of our fluorspar industry, and the distressing situation that confronts it at the present time. In fact, the industry is pretty well shut down over the country as a result of heavy imports and prices that domestic producers simply cannot meet.

I thought we ought to obtain for the record an answer to 1 or 2 questions:

No. 1 would be this: Whether or not fluorspar as a mineral is an indispensable component to our national defense setup?

Dr. FLEMMING. We so regard it.

Senator DIRKSEN. I thought you did. I thought it was essential that we get that commitment on the record, because there is a proposal pending before the Senate Finance Committee in the nature of an amendment to the Reciprocal Trade Agreements Act, which, if adopted, of course, would levy an import quota, and relieve the situation that presently confronts the fluorspar industry.

Now, the second question would be, Is your answer the same with respect to both metallurgical and acid fluorspar? I think it probably would be because both of them are indispensable in the general industrial pattern of the country.

Dr. FLEMMING. That is correct, Senator.

I would just like to check a minute. I think in one case we have reached our goal.

As far as the acid grade fluorspar is concerned, we have reached both our minimum and long-term stockpile objectives. But as far as the metallurgical grade fluorspar is concerned, we have not reached them. The fact of the matter is, a few months ago we revised upward rather drastically both our minimum and long-time stockpile objectives, and, as you know, Senator Dirksen, we have had under consideration a program designed—that is, working under the authority

of the Stockpiling Act, to strengthen our domestic mobilization base, particularly as far as the metallurgical grade fluorspar is concerned. That program is under active consideration at the present time, and I think we will undoubtedly be making a decision on it very shortly. I have had it before the Defense Mobilization Board. They have been taking a look at it, not only from the standpoint of fluorspar, but in terms of what other materials might present similar problems.

I personally feel that there are things that we can do and should do along that particular line. Of course, you appreciate the fact that my answer to your question as to its essentiality did not imply any position on my part as far as tariff proposals are concerned.

Senator DIRKSEN. That I understand. I just wanted to make the record, that it is an essential ingredient in our whole defense setup.

Dr. FLEMMING. There is no doubt about it.

Senator DIRKSEN. I was going to suggest for the benefit of the committee that fluorspar is found in perhaps 8 or 10 States in the country, Illinois, Kentucky, Colorado, Idaho, and a few more, but the situation in the industry today is such that it is almost on its uppers, and the reason, of course, is that the heavy imports from Spain, and particularly from Mexico, at prices that are such that they can actually sell it on the American market at prices at which we cannot even produce it, puts that industry in a desperate plight. If, as Dr. Flemming says, it is an indispensable and essential component to our defense setup, then certainly we ought to be mindful of the rehabilitation and the well-being of the fluorspar industry in this country, and it is a matter of considerable importance to me, as well as to the members of the industry, and my only reason for appearing here today is to make the record so that when we go before the Senate Finance Committee and seek to press upon them the acceptance of a remedial amendment, that we will have at least as a weapon, then, the fact that it is essential to the security and defense of this country.

The CHAIRMAN. Doctor, you are familiar with the situation as outlined by the Senator, are you not?

Dr. FLEMMING. Yes. There is no question in our mind as to the importance of fluorspar, particularly the metallurgical grade at this point. That is why we have under consideration a program which might result in some purchases at domestic prices, not only to get additional material into the stockpile but also in order to strengthen our domestic mobilization base.

I personally feel that we should do something along that line, and I think something of that kind is going to be worked out.

Senator DIRKSEN. Yes. We trust, of course, that your purchases for stockpile will be of real value to the industry.

Dr. FLEMMING. Right.

Senator DIRKSEN. It is not quite, of course, the whole story, and that is that while you can purchase domestically, the question is how far do we go for stockpile purposes in order to keep the industry in good, healthy condition.

Dr. FLEMMING. I might say, Senator, as far as the metallurgical grade is concerned, we do have a great deal of room now in the stockpile, because of the decision to upgrade the objectives.

Senator DIRKSEN. We are interested in both grades, both the acid and the metallurgical grade, and a continuity in operations of the industry.

Mr. Chairman, I thank you for the chance to intrude. It is sort of like coming back home because once I was a member of the House Banking and Currency Committee long ago, in this very room.

The CHAIRMAN. You are always very constructive.

Senator DIRKSEN. I think our genial chairman was a member of that committee when I was privileged to be on it.

The CHAIRMAN. Thank you very much.

Mr. Patman, a member of the committee, phoned me that he would come by for a few minutes. I wonder if you would like to ask a few questions?

Representative PATMAN. No; I don't want to interrupt him, Mr. Brown. I realize the importance of this testimony, and the importance of this meeting.

Dr. FLEMMING. Mr. Chairman, I just indicated the results of 6 of the studies that have been made in the component field, studies which indicated that we did have ample capacity to meet our mobilization requirements, but 2 of the completed studies, the high-pressure steam boilers and turbines, and the turbine-driven reduction gears, show the existence of critical shortages in capacity to meet full mobilization requirements.

Last year, after the report on high-pressure steam boilers had been completed, and the preliminary results of the study on steam turbines and turbine gears were available, ODM's Interagency Committee on Components considered various methods that might be used by the Government in overcoming critical component deficiencies. The Committee unanimously recommended that the ODM should provide the funds for carrying on this program by using the borrowing authority in the Defense Production Act. Discussion within the ODM resulted in the conclusion that it would be appropriate to use the borrowing authority for this purpose.

The Defense Mobilization Board considered the recommendation, and it was in agreement with the proposal to use the authority for removing critical component deficiencies. I decided, however, that prior to the submission of such proposals to the Borrowing Authority Review Board, which is a board within the ODM that screens all of these proposals, they should be cleared through a committee composed of industrial leaders, such as those who served on the earlier Advisory Committee on Production Equipment.

Last February I appointed an Advisory Committee on Components and Production Equipment, with Harold Vance as the chairman. Mr. Vance, as the members of the committee know, was president of Studebaker, is now chairman of the executive committee of the Packard-Studebaker Co., and since January 1953 has served as 1 of my 2 special consultants.

The other members of that committee, I might say, are Mr. Foster, former Deputy Secretary of Defense, now president of the Manufacturing Chemists Association; General Lutes, retired, president of the Pacific Tire & Rubber Co., Oakland, Calif.; Mr. McCaffery, president of the International Harvester Co., Chicago; General Wolfe, president of the Oakland Tool & Arms Corp. of America, and Admiral Mills, president now of the Foster-Wheeler Corp., New York.

All three of the servicemen on the committee, of course have very extensive experience on the procurement side.

That committee considered all of the facets of the turbine program and unanimously recommended that the ODM take immediate action to eliminate part of the shortage of mobilization capacity, or part of the shortage which exists in this industry.

The committee recommended that the General Services Administration be instructed to procure approximately $64 million worth of machine tools and facilities to round out the capacity of the turbine and turbine-gear industry.

No decision has yet been reached regarding the use of the borrowing authority to partially overcome the deficiency of capacity to procure steam boilers. Mr. Vance's committee will take a look at that.

My own inclination is to approve the recommendation of the Vance committee in regard to turbines. Before doing so, I wanted to indicate my intention to appropriate committees of the Congress, and I am very happy to have the opportunity of outlining the proposed program to this joint committee.

I would like to cite one more specific expansion problem which I know is of interest to the committee: The problem of electric power.

We have decided, with the concurrence of the Department of the Interior, our delegate agency in this field, to reopen and update the expansion goal for electric power.

The objective is being placed at 150 million kilowatts of capacity by the end of 1958, which represents an increase of about 34 million kilowatts over the capacity which will be in place at the end of this year.

Almost 40 percent of this increase has already been scheduled by the utilities, according to their report to the Federal Power Commission. Under this goal we shall process those applications for tax amortization which have been pending since the former goal was suspended at the time the stated objectives had been met.

New applications will be received and processed under established certification procedures.

The former power goal, as members of the committee may recall, provided potential tax-amortization privileges for the construction of 42 million kilowatts of capacity. This amount has been scheduled, 20 million of which is covered by amortization certificates. About two-thirds of the construction undertaken by private utilities was certified under the expansion goal.

The balance of the expansion program consisted of Federal, State, or municipal projects for which the tax-amortization privilege was of no advantage.

Next, I would like to turn to some of our activities——

Representative RAINS. Mr. Chairman, do you intend for the witness to continue all through his statement before interrupting him for questions?

The CHAIRMAN. Do you desire to do that or shall we examine you on this as you finish, like the power question?

Dr. FLEMMING. Whichever way the committee cares to proceed is perfectly satisfactory to me.

The CHAIRMAN. You desire to ask questions on power?

Representative RAINS. On the electric-power program, Doctor, in noting a memorandum which was prepared by the committee staff,

I see that it is divided off in regions of the country. I note that the southeast section where I hail from, and the extreme northwest, according to the goals which you have set are in the worst shape of the other regions; is that right?

Dr. FLEMMING. I am familiar with those figures. They are figures, as I understand it, that have been obtained from the Federal Power Commission's report.

Representative RAINS. That is right.

Dr. FLEMMING. Of course, the action that I am proposing here, the action of increasing the overall goal, is designed to help correct that particular situation.

I have decided to set it on a nationwide basis, but I feel sure of the fact that in view of the fact that some of the areas here, as indicated by the Federal Power Commission, will be in very good shape, that the applications undoubtedly will tend to come from the areas where it looks as though there would be a considerable demand in the years that lie ahead.

Representative RAINS. The proposed increases, or the hoped-for increases which you mentioned, are based only on the certificates already issued by the Federal Power Commission, or are they based on certificates which are expected to be issued?

Dr. FLEMMING. About 40 percent of the increase that would be called for by this new goal has, according to the information given by the Federal Power Commission, been scheduled by the utilities. Sixty percent has not been scheduled up to the present time.

Representative RAINS. For instance in my State, under a bill passed by the Congress last year, the Alabama Power Co. is preparing within the next 60 to 90 days to ask the Federal Power Commission for a permit to construct five dams on a river which would increase the power reserves in that area considerably. I wondered if such pending applications as that, were included in the figures which you have here?

Dr. FLEMMING. I wouldn't be sure, Congressman. I think they are probably not included. We would have to check that.

(The following was submitted for the record on April 27, 1955: "There are no pending applications filed by the Alabama Power Co.")

Representative RAINS. Have you been able in your agency to establish the goal for electric power that you think we would need in case of all-out war?

Dr. FLEMMING. When we set this objective at 150 million kilowatts of capacity by the end of 1958, which would represent an increase of 34 million over that which we have at the present time, it represents our best current judgment as to what would be required in the event of mobilization. That, of course, is our sole role in this area, Mr. Congressman, that is, to set a goal which, on the basis of the best information available to us, usually from our delegate agency, which in this instance is Interior, leads us to believe that that is what would be needed in the event of general mobilization.

The CHAIRMAN. Your goal for power reserves is about 15 percent; is that right? Is that what you would like to have?

Dr. FLEMMING. That is normally regarded as a good figure.

The CHAIRMAN. I notice in region 3 that you have seven-tenths of 1 percent.

Dr. FLEMMING. That is right.

The CHAIRMAN. That is in 1958.

Dr. FLEMMING. Yes.

The CHAIRMAN. Region 3 is composed of part of Virginia, North Carolina, South Carolina, Georgia, Alabama, Florida, part of Mississippi, Tennessee, and part of Kentucky.

Now, then, in region 7, you will have minus $1\frac{3}{10}$ percent.

Dr. FLEMMING. That is right.

The CHAIRMAN. There is no reserve at all. What is being done about that?

Representative PATMAN. What is region 7?

The CHAIRMAN. Washington State, Oregon, North California, Idaho, Montana, Utah, and part of Nevada.

Dr. FLEMMING. It is information of that kind that has led us to the conclusion that we should set this new goal for electric power at 150 million kilowatts and indicate a willingness to process tax amortization certificates within that goal, and as I indicated, that is about 34 million in excess of the capacity that will actually be in place at the end of the present calendar year.

Representative RAINS. Has any consideration ever been given, either in the Interior or your department, to the construction of extremely high-power lines to transmit that power from one region to another in the event of war?

Dr. FLEMMING. It is my understanding that in the Department of the Interior, this whole problem of interconnections, such as you refer to, has been studied and has been given consideration. They have not made any specific recommendation to us as a result of those studies.

Representative RAINS. I saw a booklet the other day which has not been given out as I understand for public perusal in which it set forth such study. I was wondering if it had been brought to your attention or what you thought about the idea.

Dr. FLEMMING. I have not personally seen it as yet. It may have come into our agency but I would be certainly very much interested in taking a look at it and in reacting to it.

The CHAIRMAN. Of course, you can't stockpile electric power.

Dr. FLEMMING. That is right.

The CHAIRMAN. Has there been any study at all as to the need you will have of more power in case of war?

Dr. FLEMMING. Mr. Chairman, there has not been any such study.

As I say, our new goal represents the current best judgment of the Office of Defense Mobilization with Interior concurrence as to the level that we ought to be at; namely, 150 million kilowatts, as contrasted with the present level.

Representative RAINS. I would assume you have goals for the expansion of the aluminum industry, and if you do where will you get the electric power for that?

Dr. FLEMMING. Mr. Congressman, that is one of the reasons why this objective in our judgment should be raised, because of the heavy demand, for example, in certain parts of the country, on power for aluminum production. There must be a correlation between those

two. There isn't any doubt in my mind, but that the goal should be higher and that we should do everything we can to reach the new goal.

I know that there are those who will take the figures, such as the Chairman has referred to, and say, "Well, that was developed on the basis of a year when the water resources were at their lowest ebb in any year over a period of 30 years"—I think it is, or something of that kind.

The CHAIRMAN. You wouldn't expect tax amortization to take this up, would you?

Dr. FLEMMING. Mr. Chairman, in the past we have had pretty good success with the tax-amortization program in this area. It is true, as I indicated here, that under our former goal there was construction of 42 million kilowatts of capacity, about 30 million of which was private construction. Of this private construction, about two-thirds, or 20 million kilowatts, was covered by tax amortization. The remainder, namely, a little more than 11 million, resulted from Federal, State, or municipal projects. Both public and private construction contributed to the attainment of the goal.

Our feeling is, based on some contacts that we have had in terms of applications that are pending and are on file, that we can make considerable progress in the direction of reaching the new goal, as a result of holding out this particular incentive.

Of course, time alone will tell us. But the history of it in the past is encouraging.

Representative RAINS. Mr. Chairman—you don't mean that all of the private-power investments were made under the tax-amortization program?

As a matter of fact, in the South, as I understand it, most developments were made without the tax-amortization program.

Dr. FLEMMING. Mr. Congressman, our figures indicate that of that 30 million of private investment that I talked about 20 million was certified under the tax-amortization program. I don't know what the breakdown is geographically.

Representative RAINS. Because of the new goals which you have set, and the urgency for a more ample surplus of electric power, is it your belief that the answer from our standpoint should be only tax amortizations or should we go into a power development program on the part of the Federal Government?

Dr. FLEMMING. Mr. Congressman, that is the kind of a recommendation that would come to us from the Department of the Interior, and of course to the Congress from the Department of the Interior. They are our delegate agency in that field. We make no effort to duplicate staff or anything of that kind in that area so we would have to look to the Department of Interior recommendations along that line.

Representative RAINS. You tell them what you need and it is up to them to suggest the ways and means to get it?

Dr. FLEMMING. We work together in determining what is needed. They, of course, have a pretty good idea of needs also. We get for them the military requirements, and so forth. We work together in determining what the need is. Then we do have this one device that

has been given to us under the Internal Revenue Code, delegated to us, namely, the device of tax amortization certificate. Now, if anything else is needed over and above that, it would be up to them to make the appropriate recommendations to the Congress.

The CHAIRMAN. Were these amortization certificates for steam plants or hydroelectric plants? I am trying to get the rivers of my country developed. That is what we need. That is what the country needs.

Dr. FLEMMING. It could be either one under that tax amortization certificates, Mr. Chairman. I would have to get that broken down for you.

The CHAIRMAN. I don't believe there has been a single one for a hydroelectric plant.

Representative RAINS. Hydroelectric plants require a much greater length of time to develop. In other words, a 5- or 10-year program. Isn't it a fact that all of these tax amortization benefits are on steam generating plants?

Dr. FLEMMING. If I may, Mr. Chairman, I will ask about that.

Mr. PARNELL. I would have to check individual cases, sir, to give you the answer.

Dr. FLEMMING. Mr. Chairman, I am told that there isn't any doubt at all but that the majority have been steam plants. We would have to check our records, however, before we could say definitely one way or another whether there had been any hydroelectric plants in the picture. That we will be glad to do.

(The following was supplied for the record in response to the above.)

I. *Certified under tax amortization program (Jan. 1, 1952–Dec. 31, 1954)*

	Kilowatt capability	Estimated cost
Steam	19,116,200	$4,549,269,000
Hydroelectric	1,081,000	258,855,000
Total	20,197,200	4,808,124,000

II. *Unassisted expansion*

	Kilowatt capability
Federal, State, and municipal	11,199,000
Privately owned:	
Steam plants	10,253,000
Hydroelectric	202,000
Total	21,654,000

The CHAIRMAN. I understand there are only about two people who work part of the time now on electric power in the Interior Department; is that right?

Dr. FLEMMING. In the Interior Department?

The CHAIRMAN. Yes.

Dr. FLEMMING. Mr. Chairman, I am not acquainted with their staff setup. I would be surprised if there are not more people than that.

The CHAIRMAN. I just heard that. That is the reason I was so surprised. The future doesn't look so good as to electric power, especially in the event of an all-out war.

Dr. FLEMMING. I would have to check that with the Department of the Interior. I would be surprised if there are no more people than that.

Representative RAINS. Are you making any plans for atomic energy to take the load which is now borne by electric energy?

Dr. FLEMMING. Mr. Congressman, in developing a requirements picture in the total energy field, of course, we think not only of electric power but all other forms of energy. But up to the present time, I do not think that any atomic energy has been worked into the supply side of the supply requirements balance sheet.

Representative RAINS. It is still in blueprint stage, so to speak?

Dr. FLEMMING. That is right.

Representative RAINS. It is not certainly off the drawing board?

Dr. FLEMMING. That is right.

Representative RAINS. There are a lot more questions I should like to ask, Mr. Chairman, but I think that is enough for me at this time.

Representative PATMAN. May I ask a question, Mr. Chairman.

The CHAIRMAN. All right.

Representative PATMAN. In the consideration of the expansion that you have just outlined, Dr. Flemming, have you considered the type fuel you will use?

Dr. FLEMMING. No. You are talking now about the power expansion?

Representative PATMAN. Yes, sir.

Dr. FLEMMING. No. Our only role from this point on, Mr. Congressman, is having set the goal, if private firms come in with plans which fit within that particular goal, then we determine whether or not they should be given a tax amortization certificate and if so, for how much.

Representative PATMAN. Do you contemplate the use of uranium in any of these projects?

Dr. FLEMMING. You see we would not be involved in the construction of it at all. It would be the decision of private utility companies.

Representative PATMAN. They would have to submit the plan to you?

Dr. FLEMMING. That is right. They handle it as a private project.

Representative PATMAN. You don't have any applications now pending?

Dr. FLEMMING. There are some pending. I am not acquainted with the nature of them. There have been some filed while we have been determining whether or not to increase the goal.

Representative PATMAN. That contemplate the use of uranium?

Dr. FLEMMING. I don't know about that, at all. I am sorry. I didn't understand your question.

Senator BRICKER. There is only one plant under consideration. That is Allegheny Power. Other contracts are being worked on. It will be some years ahead before they produce power.

Representative PATMAN. That is the only one now?

Senator BRICKER. That is all now.

The CHAIRMAN. Aren't we furnishing money to build powerplants abroad when we don't have enough here? Tell me something about that.

Dr. FLEMMING. I didn't hear your question.

The CHAIRMAN. Aren't we furnishing the money to build powerplants abroad in several countries?

Dr. FLEMMING. I am not acquainted with that program, Mr. Chairman. If we are, that would be under the Foreign Operations Administration or another department. I can't give you an answer to that.

(The information requested was obtained from the Foreign Operations Administration. See appendix, p. 55.)

The CHAIRMAN. That wouldn't come under your department?

Dr. FLEMMING. No, sir.

The CHAIRMAN. It looks somewhat strange to me, that we furnish money to build dams in order to get electric power for countries abroad and don't have enough here for our own private use, public use, or in the event of war. I can't understand that kind of reasoning myself.

Dr. FLEMMING. Mr. Chairman, my position, looking at it from the Defense Mobilization point of view is this: We have set this new goal, we will, of course, process tax amortization certificates under the new goal, and naturally, we would be very interested in considering any other recommendations of Interior as our delegate agency might desire to make designed to help us reach that particular goal, but it would be their responsibility then to convey those recommendations to the Congress.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. Up to the present time Interior has made no recommendation for any more responsibility placed upon your office than that of accelerating depreciation?

Dr. FLEMMING. That is right.

Senator BRICKER. Have you personally anything to recommend that we might consider as a Congress that would give you additional responsibility or additional power to bring about your goals?

Dr. FLEMMING. No, Senator, in regard to the matters we have discussed, I do not.

Senator BRICKER. You think it will be adequate, the power that you have got?

Dr. FLEMMING. I feel that any recommendation for further authority over and above what we now have in the tax amortization field should come from the Department of Interior, since that Department has responsibility in that area.

Personally based on our past experience I am optimistic over what private industry will do in this particular area.

Senator BRICKER. In other words, if there is an industrial need that looks more or less permanent without taking into consideration the emergency needs of war, the power will follow the lead under your tax amortization program?

Dr. FLEMMING. That is right. In other words, if private investors feel there will be a demand for power they will invest their money,

and they can come in and get the rapid tax writeoff as long as we haven't reached this particular goal.

In other words, this tax amortization incentive is an incentive designed to bring about the investment of private funds in these various areas so that we can strengthen our mobilization base.

Senator BRICKER. As I remember it there is no tax amortization in the heavy construction necessary to supply power for the atomic energy program at all, is there?

Dr. FLEMMING. I don't think so.

Senator BRICKER. If that be true then your figures are even more impressive because of the tax amortization ratio being much higher on those excluded from the atomic energy program.

Dr. FLEMMING. That is true.

Representative TALLE. Doctor Flemming, as I understand your statement, tax amortization has worked well for the attainment of the majority of expansion goals.

Dr. FLEMMING. That is right.

Representative TALLE. But that 87 such goals have not been realized by it.

Dr. FLEMMING. Let me put it this way, Mr. Congressman. In the 87 open goals we have not yet reached the goal but in the case of many of those goals we are making considerable progress.

In other words, we are still accepting applications for tax amortization certificates under those goals. They are still being granted, and some progress is being made, but in the case of some of the goals, we have not made substantial progress and we feel there that we should give consideration to special programs, and what I outlined to the committee in the components area is an illustration of that.

Representative TALLE. As I understand it you don't feel that you want to suggest what the additional expansion devices might be?

Dr. FLEMMING. My feeling, Mr. Congressman, is this: I had made the suggestion in the components field, namely, that we use the borrowing authority that we have in the Defense Production Act for that purpose. I think that we could make substantial progress in the direction of achieving the goals in the components area.

There are other areas where it seems to me that normally the best thing to do is not to ask for general authority, but for the appropriate department or agency of Government to come up and ask for specific authority. Let me give you as an illustration the field of tankers.

As you know, that has been a problem, to have available enough tankers in the event of mobilization.

You will recall at the last session of Congress that the Department of Commerce, and the Department of the Navy, both came up with programs designed to help close that particular gap. The Congress approved both of those programs, and those construction programs are now under way and consequently we are making progress in the direction of closing that gap.

I think that there are probably other areas where that kind of an approach should be taken, but we do feel that in the area of components, it makes good sense to use the general authority granted to us by the Congress under the Defense Production Act. I will say very frankly that a proposal was made that we use that authority in connection with the tanker program and we adopted the attitude "No.

There is a program that has a long legislative history, that the Congress has spent a great deal of time on. We think that there ought to be an approach to the Congress in terms of a specific program."

That is what was done.

Representative TALLE. As I understand it, recalling our earlier hearing of some weeks ago, your agency has a long-run program, and also a short-run.

Dr. FLEMMING. That is on the stockpiling of strategic materials, that is right.

Representative TALLE. How do you feel about the progress of the short-run attainments in relation to the long-run program?

Dr. FLEMMING. Congressman Talle and Mr. Chairman, if I might, I was going to deal with that stockpiling situation in the next section of my statement, if I could continue with that, I would be very happy to cover that point.

Representative TALLE. That is quite all right.

Senator BRICKER. May I ask 1 or 2 questions about some things you have covered up to the present time?

I remember the tanker program that was authorized. That does not fulfill the long-term needs of the country by any means. That is only a start on the program.

Dr. FLEMMING. That is just a start.

Senator BRICKER. That is the way we considered it when it came up. Another question or two in regard to these component facilities.

How do you propose if you use the lending or borrowing authority that these be handled? In the stockpile way, Government taking title and holding them, turning them over to private companies for storage, or how will they be managed?

Dr. FLEMMING. Senator Bricker, that is just exactly what we have in mind. In effect, it would be a stockpiling of them and undoubtedly General Services would have to work out arrangements with private companies for the storage, and the warehousing. If the emergency develops you can appreciate we will have no difficulty in selling them and consequently there wouldn't be any ultimate net cost to the Government, except possibly some cost of maintenance.

Of course, if the emergency didn't develop it might be that the Government would have such items on its hands for a considerable period of time.

We feel that some of these areas are so vitally important, that it is probably worthwhile for us to take the calculated risk. It would be something like the machine-tool-pool program that we handled under the Defense Production Act.

Of course, there the Government came out in fine shape.

In the report that I filed with the committee, I summarized that. For example, you may be interested in it, because it illustrates the point we are dealing with:

All deliveries under the machine-tool-pool-order program initiated in October 1951, have been completed. Approximately 87,000 machine tools valued at $1,155 million have been delivered; out of this total all but 832 costing $10,900,000 were purchased by private industry. It worked out very well.

Senator BRICKER. I remember that program very well.

Dr. FLEMMING. It is the same principle that we have in mind so far as components are considered.

The CHAIRMAN. Will you need any more authority to carry out this program?

Senator BRICKER. I don't know of any more authority. You have the lending power now, the borrowing power. You could spend the money if you had it in this program to bring it up to the requirements that you yourself have set.

Dr. FLEMMING. That is right.

The CHAIRMAN. Will you need any more authority of law to carry out your functions?

Dr. FLEMMING. Mr. Chairman, when we appear before both the House and Senate Banking and Currency Committees, we will probably suggest 1 or 2—not 1 or 2, maybe a number of amendments to the act, but they will be more clarifying. In this area of components it is the judgment of our general counsel, and the rest of us, that the existing language does provide us with adequate authority to carry forward with the kind of program I have been talking with Senator Bricker about.

The CHAIRMAN. Are you through, Senator?

Senator BRICKER. Yes, sir.

The CHAIRMAN. Mr. Talle?

Representative TALLE. Mr. Chairman, the question I wanted to ask is much like the one that you just put to Dr. Flemming, I was wondering about your authority?

In your discussion in connection with the component areas, you referred to a method in addition to the tax-amortization device you have used?

Dr. FLEMMING. Yes. There we would be relying on that revolving-fund authority that is contained in the Defense Production Act.

Representative TALLE. Are you satisfied you have the authority you need to get the job done?

Dr. FLEMMING. We feel that the authority that is reflected in the language in the Defense Production Act in connection with the revolving fund is adequate to handle the components program, and we don't feel that we need to suggest any amendments to that.

Representative TALLE. If you change your mind, you will no doubt let us know.

Dr. FLEMMING. I will let you know immediately. There is no question about it.

The CHAIRMAN. What is the status of your machine-tool program?

Dr. FLEMMING. I just gave the overall figures, Mr. Chairman, relative to the pool order program.

I will just refer to the other portions that I have included in the report. Of the 832 tools acquired by the Government, 152 are valued at $1,991,000, have been resold, and 7 tools valued at $163,000 transferred to other programs. As a result, only 673 tools valued at $8,700,000 remain in Government storage.

Then we have the industrial leasing program. This program is near completion, since all except 10 of the 2,744 tools contracted for by the General Services Administration for subsequent leasing have been delivered. All tools acquired are out on lease, with the exception

of 246 tools now in storage due to completion or cancellation of the defense work in which they were used.

That is the status of the two pieces of the program.

Then, of course, we have been confronted with the same kind of problem that the Government was confronted with after World War II, and I issued in October 1953 a defense mobilization order designed to establish Federal Government policy with respect to the management of Government-owned production equipment. In the 17 months since this order was issued the ODM has received nondefense leasing proposals involving 63 companies, and 1,082 items of equipment valued at $14,900,000. The ODM has approved nondefense leasing to 11 companies, involving 377 items, valued at $2,800,000, requests of 52 companies involving 158 items valued at $7½ million were denied.

Senator BRICKER. You are talking about machine tools.

Dr. FLEMMING. Primarily, yes.

The remaining 547 items valued at $4½ million are accounted for by withdrawals after submission. It is evident that only a minor fraction of a percent of the 500,000 items which the Government is estimated to own have been leased for nondefense production purposes. In other words, we are doing everything we can to keep these packages of machine tools intact, so that in the event of an emergency we can move in very quickly and, as many of you know, subsequent to World War II they were broken up very rapidly, and as a result we had to get into a very expensive program post-Korea.

The CHAIRMAN. You might complete your statement, then, if you desire.

Dr. FLEMMING. All right.

I was getting ready to turn to the materials area, and where it appears that material supplies are now or are likely to become inadequate to meet defense needs private industry is encouraged to expand productive capacity, with appropriate assistance by means of a variety of Government incentives, including accelerated tax amortization, other tax benefits, guaranteed markets, procurement contracts, and loans and guaranteed loans.

In specific cases stockpiling is utilized to provide a reserve of materials within the United States intended to decrease and prevent wherever possible a dangerous and costly dependence upon foreign nations for supplies of strategic and critical materials in time of national emergency.

Under the Defense Production Act of 1950 commitments approximating $6 billion have already been made to expand supplies of materials for defense purposes.

Among the major programs——

Representative RAINS. What was that figure, Doctor?

Dr. FLEMMING. Six billion.

Among the major programs launched under this authority is aluminum, where United States annual productive capacity has been doubled from its pre-Korean level of about 700,000 tons a year, to a present level of about 1 million and a half tons a year. In the case of copper, nearly a billion dollars in long-term market guaranties have resulted in the expansion of domestic copper mines so as to increase United States domestic mine production of copper by about

250,000 tons a year when in full production. All of that is not yet in full production.

Senator BRICKER. What is our annual domestic consumption of copper, approximately?

Dr. FLEMMING. About 1,400,000.

The CHAIRMAN. If there are any of these questions which you don't feel you should answer, we will have another meeting in executive session.

Dr. FLEMMING. I would be delighted to answer such questions in executive session. I am told about 1 million and a half.

Commitments of almost a billion dollars have been made to expand supplies of manganese, molybdenum and tungsten.

Representative RAINS. Does your authority for that come under Public Law 208? It seems to me this bill should have been considered by the Banking and Currency Committees. Instead it seems to come out of some other committees.

Dr. FLEMMING. You mean 206?

Representative RAINS. Yes.

Does part of the money you spend here come under 206 or under the Defense Production Act?

Dr. FLEMMING. The money that is used to carry out the provisions of Public Law 206 comes from the Defense Production Act. It comes from the borrowing authority in the Defense Production Act.

Representative RAINS. That would be a good way for all other committees to reach in and change the authority. I think these bills should come before the Banking and Currency Committee.

Did you notice this one, Mr. Chairman?

The CHAIRMAN. No; I did not.

Representative RAINS. It was Senator Malone's bill, I understand.

Senator BRICKER. This is a mining bill.

Representative RAINS. It refers all through it to the Defense Production Act.

Dr. FLEMMING. Mr. Chairman, I might state that such laws, of course, do have the effect of tying up a portion of the borrowing authority.

Representative RAINS. It amounts to earmarking, so to speak.

Dr. FLEMMING. That is right.

The CHAIRMAN. To what extent does that amend the Defense Production Act, or how does it modify it?

Dr. FLEMMING. The way it works is this: If the committee would like me to I will just give you a brief summary of that program. Shortly after the start of the Korean war several general domestic procurement programs were put into effect under authority of the Defense Production Act. These programs specified certain conditions under which the Government would pay for commodities produced, at prices which were generally substantially higher than prevailing market prices. The programs were necessary to provide materials then in extremely short supply for defense purposes, including stockpiling and not available in adequate quantity, and also for the purpose of stimulating exploration, development, and mining of these strategic minerals and metals not produced in appreciable quantities within the United States.

The programs involved, and the original termination dates, are as follows. I will supply this for the record, but they are such commodities as asbestos, beryl, and so forth.

(The following was submitted in response to the above:)

Commodity:	*Termination date*[1]
Asbestos (chrysolite)	Oct. 1, 1955
Beryl	July 31, 1955
Chrome (metallurgical grade)	June 30, 1955
Columbium tantalum	Dec. 31, 1956
Manganese (metallurgical grade)	June 30, 1956
Mica	Do.
Tungsten	Do.

[1] Or earlier when quantities specified in the regulations are acquired.

Dr. FLEMMING. Each regulation for these programs—this is the regulation issued under the Defense Production Act—specified the grades of materials to be purchased, the prices to be paid, information as to delivery points, and further stated that purchases would cease on the dates indicated, or, when the specified quantities mentioned in the regulations had been acquired. The Government publishes quarterly amounts delivered under the regulations, so all domestic producers can evaluate their relationships to the total program. Domestic producers intending to participate were directed to send a postcard to the United States Government signifying their intention to do so. Sufficient funds under the borrowing authority of the Defense Production Act were set aside to finance total commitments on a gross-transaction basis.

The program targets were set sufficiently large to encourage the miners to produce as much as they possibly could within the original time period. Public Law 206 extended the termination date for all programs by 2 years. No additional financing was required since the programs had already been set up on the basis of gross commitments involved.

However, as a result of Public Law 206, the emphasis was changed from time to quantity. Thus actual expenditure will be increased, since by extending the delivery period 2 years, greater quantities toward the quotas will be put to the Government than had been originally anticipated in the original shorter time periods.

Now, of course, as the Congressman has indicated, a bill has now been introduced to extend this time period still further.

Continuing with my statement on the overall materials situation, lesser sums are involved in expansion of many other materials, including asbestos, chrome, cobalt, and so forth. The authority to grant accelerated tax amortization to aid in the expansion of operations of numerous producers of metals and minerals has been continued in the Internal Revenue Code of 1954.

Steel is a good example of a major industry where expansion has taken place almost entirely by private financing, with the assistance afforded by accelerated tax amortization. Current steel capacity is about 126 million tons a year compared to World War II capacity of about 85 million tons a year. Under the Revenue Act of 1950 it was possible to exempt from the excess-profits tax domestic production of certain strategic and critical metals and minerals, which previously had not been produced in appreciable quantities within the United

States. This assistance resulted in a major increase of domestic production of the rare earth minerals where only a few years ago the United States was almost wholly dependent on foreign sources such as Brazil and India. Under the Defense Production Act the search——

Senator BRICKER. Just one minute, Mr. Chairman—is the production of rare earths in this country now adequate to our needs in emergency?

Dr. FLEMMING. Our materials people feel that the answer to that is "Yes."

Senator BRICKER. Thank you very much.

Dr. FLEMMING. The search for new domestic mineral deposits has been encouraged by a program designed primarily to assist small mining companies by advancing a portion of the costs involved in exploring for domestic minerals.

Under this program administered by the Defense Minerals Exploration Administration in the Department of the Interior, approximately $21 million have been spent, and over 700 projects in over 30 States have been undertaken. New legal authority for multiple mineral operations on the public lands of the West is also expected to further stimulate domestic exploration and development.

I would like to turn briefly to the stockpile program, which is carried on pursuant to the Strategic and Critical Materials Stockpiling Act. At present 75 materials are being stockpiled. Overall stockpile objectives are currently valued at $9.6 billion, of which materials valued at approximately $4.9 billion are on hand. The overall objectives are broken down into two categories.

First, minimum objectives valued at approximately $6½ billion, of which materials valued at approximately $4.1 billion are currently on hand. I might say at this point that, as the committee appreciates, the minimum objectives are set by first determining requirements, then by determining the supply that would be available, including some supplies from accessible foreign sources discounted to reflect potential hazards in wartime. Foreign sources are discounted by a percentage given to us by the Joint Chiefs of Staff, and by the Department of State.

Second the long-term objectives are set pursuant to instructions from President Eisenhower. In those cases we discount the foreign sources of supply a hundred percent except for Canada, Mexico, and a few countries in the Caribbean.

Long-term objectives for metals and minerals, established pursuant to President Eisenhower's directive of March 26, 1954, are valued at approximately 3.1 billion, of which materials valued at about 800 million are currently on hand. Commitments already made under the Stockpile Act, and the Defense Production Act, make substantial provision for the completion of most of the minimum stockpile objectives within the next few years.

Of the 75 minimum stockpile objectives, 39 were completed by December 31, 1954, and 9 others were 75 percent or more complete. By June 30, 1956, we expect that 62 minimum objectives will be 75 percent or more complete.

The CHAIRMAN. That is 1956?

Dr. FLEMMING. Yes; June 30, 1956.

The exact status of different materials in the program, of course, is classified information, and as the committee knows we do furnish a detailed summary, semiannually, to the Congress.

I thought finally I would like to discuss with the committee the approach to industrial dispersion, because there has been a great deal of discussion about that recently.

Representative TALLE. Mr. Chairman, in advance of that might I ask, have you been successful in getting from abroad strategic materials on a barter basis—the exchange being made for our agricultural surplus products?

Dr. FLEMMING. Some real progress is being made in that direction currently. Up until the past few months not a great deal of progress was made but some progress, I think, will be made under title I, of the Agricultural Trade Development and Assistance Act that was passed by the last session of Congress. That is Public Law 480. Some progress has been made under that. That calls, you know, for a supplemental stockpile to be acquired by selling agricultural commodities for foreign currencies. One of the things the Government can do with the foreign currencies is to acquire strategic and critical materials. When they are acquired they go into a supplemental stockpile, which is insulated. Withdrawals of materials are limited as in the Stockpiling Act (Public Law 520, 79th Cong.)

Of course, if materials are acquired by barter where we still have room for them, in either our minimum or long-term stockpile objectives, we will put them into the strategic stockpile. But under the act passed by Congress, agriculture can acquire them even though our minimum and long-term stockpile objectives are complete.

Representative TALLE. Mr. Chairman, I should like to inquire about the reasons for the tremendous rise in the price of secondary aluminum. If this isn't the proper time I will hold my questions in abeyance.

The CHAIRMAN. You might go into it now.

Representative TALLE. The price of secondary aluminum, Dr. Flemming, has advanced very rapidly recently, and some of my users are very much disturbed because they have made commitments on orders, and a sudden rise in price such as has occurred can, of course, drive them to the wall.

Dr. FLEMMING. Mr. Chairman, and Congressman Talle, of course I think the history has been that there usually is a sharp rise in the secondary as soon as the supply-demand situation tightens. The demand for aluminum at the present time is very high, and the suppliers are having difficulty in satisfying that demand. As you know, because of that situation, we reduced our program for acquiring aluminum for the stockpile during the present calendar year by 75,000 tons for the first 6 months of this year. We will take another look at it to see whether or not we should reduce it for the second 6 months of this year.

Representative TALLE. Is that a demand that is based on the prospect of immediate use of the material, or is it partially a demand arising out of the possibility that the material might become short, and stockpiling is engaged in by certain big concerns?

Dr. FLEMMING. Of course, Congressman Talle, and Mr. Chairman, it is awful hard for anyone to answer a question of that kind. The information that has been given to us, however, would lead us to believe

that the current situation is not the result of people building up their own stockpile of aluminum.

Representative TALLE. I think you said, Dr. Flemming, at our earlier hearing that the prospects are good for increasing production through Alcoa, and also Alcan?

Dr. FLEMMING. I think all of the United States defense expansion is now in production. However, one company recently announced plans—Alcoa—for expansion up to, I think it was, 65,000 tons. That will come into production next spring.

The CHAIRMAN. Do you have any more questions?

Representative TALLE. Apparently, then, for the moment, there isn't likely to be any relief for any users from the situation in which they find themselves?

Dr. FLEMMING. I would like Mr. Harris to check me on this, but I think the Alcan Aluminum Co. of Canada is also planning an expansion.

Mr. HARRIS. It starts this summer. It will be coming in in another year.

The CHAIRMAN. I didn't hear what you said.

Dr. FLEMMING. He said it will start coming in this summer and will continue to build up for another year.

Representative TALLE. That is all for the moment, Mr. Chairman.

The CHAIRMAN. Doctor, how do you determine the level at which the domestic industry is maintained?

Dr. FLEMMING. Well, that is a very important question, and, of course, at the same time a difficult one.

Here is the way we operate: We do feel that a part of our getting ready for mobilization is doing everything we can to insure a healthy domestic mobilization base in these various areas. If I may back up a bit, you may recall that about a year ago the President appointed a Cabinet Committee on Mineral Policy. I had the privilege of serving on that committee, and one of the recommendations that Committee made was that the Government—the executive branch—should endeavor to determine the level at which domestic production should be maintained in order to give us the maximum protection in the event of full mobilization.

The Department of the Interior, of course, is the Department that we turn to for advice and assistance in that area because they are the technical people. For example, when we were confronted with certain problems in the field of lead and zinc, we turned to them and asked for a finding as to the approximate level at which lead and zinc production should be maintained.

They provided us with that information, and gave us an indication of some of the measures that they thought would be required to maintain industry at that level.

You will recall that soon after that the President announced that he had authorized us to engage in a stockpiling purchase program, designed to meet our long-term stockpile objectives, and at the same time to strengthen the domestic mobilization base. He regards, and we all regard it as an integral part of our program for getting ready for full mobilization.

Senator Dirksen was talking to me about fluorspar. Several months ago we requested the Department of the Interior to give us the same kind of basic information as far as fluorspar is concerned.

Now, what they do, of course, in conjunction with other departments as necessary is take a look at our stockpiling situation, consider what would be the demands that would be placed upon us for certain materials in the event of war. Then they endeavor to give us as sound an estimate as they can of the level at which domestic production should be maintained.

Of course, that is really our insurance policy. We all know that a considerable amount of subjective judgment enters into the fixing of minimum or long-term stockpile objectives. Somebody may be wrong. Somebody conceivably may make a mistake in application of judgment to certain types of situations. If they do, and if we don't have enough in the stockpile, a healthy domestic industry would be our insurance policy.

Representative TALLE. You have done that in the case of aluminum. You did increase your stockpiling in order to help private industry.

Dr. FLEMMING. In the case of aluminum?

Representative TALLE. Yes.

Dr. FLEMMING. Actually what happened there was that in order to secure expanded capacity for defense we agreed that private industry could put certain quantities to the Government. Now, actually, the material initially went into what we call the Defense Production Act inventory. Subsequently we asked the Congress for funds to transfer from the Defense Production Act inventory into the stockpile.

Representative TALLE. I have another question that is related to it.

Dr. FLEMMING. However, I might say this, Congressman Talle: On the aluminum program, the Government has made a firm commitment to receive certain quantities of aluminum under certain conditions. Now, if we reach our stockpile objective, and have not received all of the quantities that those companies can put to us, they can still put it to us, and then the Government will have to decide whether it is ultimately going to resell it or whether it is going to put it into the stockpile even though it is in excess of the stockpile objective. In the case of aluminum, our primary objective was to get expansion, and one of the byproducts of that expansion has been aluminum which we in turn have been able to put into the stockpile.

Representative TALLE. Related to that is the matter of export controls. There is authority in Commerce to stop the export of aluminum scrap.

Dr. FLEMMING. That is right.

Representative TALLE. Are those controls in effect?

Dr. FLEMMING. It is my understanding that Commerce did recently put some controls into effect.

Representative TALLE. That action was taken rather recently, wasn't it?

Dr. FLEMMING. Yes. I think within the past few weeks, certainly.

Representative TALLE. My users complained fully a month ago that scrap was going abroad, and naturally they didn't feel very happy about that.

Dr. FLEMMING. The Secretary of Commerce serves as a member of the Defense Mobilization Board. Normally when we have a problem such as we have had in aluminum and copper, we take a look at it together, both from the standpoint of whatever responsibility ODM

has for stockpiling and then also from the point of view of the authority that the Secretary of Commerce has on export controls, and on other matters.

Representative TALLE. Of course, I should like to report to my users that our Government is fully as much interested in them as it is with foreign users.

Dr. FLEMMING. Mr. Congressman, I think that the action we took in connection with our procurement schedules for aluminum does indicate an interest on our part. It wasn't an easy decision, but we tried to weigh everything in balance, and came up with a decision which we feel was fair to the economy, and at the same time did not undermine our security position.

The CHAIRMAN. Doctor, I am very glad you brought out these questions on aluminum.

Congressman Gamble of this committee wanted to ask these questions, but couldn't be here, so I thank you very much.

Senator Bricker?

Senator BRICKER. Some of these strategic materials in the field of minerals are subject to limited production. They are very vulnerable to attack. In fixing the long-range goal, have you taken into consideration the vulnerability of the source of supply?

Dr. FLEMMING. You mean foreign sources of supply?

Senator BRICKER. Yes.

Dr. FLEMMING. Yes, Senator Bricker. In fact, under the instructions from the President when we set the long-term objective, we are told to discount our foreign sources of supply 100 percent, except for Canada and Mexico and a few other nearby countries.

Senator BRICKER. I am thinking of the Canadian source of supply.

Dr. FLEMMING. Even in case of Canadian sources in setting stockpile objectives some discount is made to provide the proper safety factor.

Senator BRICKER. That is the one I was thinking of.

Dr. FLEMMING. That was factored in, taken into consideration.

Senator BRICKER. It could easily be cut off.

Dr. FLEMMING. We do take that into consideration.

Representative RAINS. Did I understand you to say that you sometimes took aluminum and put it into stockpile, but the aluminum was in excess of stockpile requirements?

Dr. FLEMMING. No. I said some time in the future the Government might be faced with that kind of a decision; in other words, we might reach our stockpiling objective—I think I should say parenthetically this is kind of academic because we have a long distance to go yet—but we might reach our stockpiling objective in the future and at the same time be in a situation where these aluminum producers still had the right to put additional amounts to us under the expansion contracts that the Government entered into immediately after the outbreak of hosilities in Korea.

Now, if that were the case, then the Government would have to decide, "Well, is this excess going to be sold, or is it going to be put into the stockpile even though we have reached the stockpile objective?" But we are not faced with that question now.

Representative RAINS. You are not faced with that problem now?

Dr. FLEMMING. No. We won't be for some period of time.

Representative RAINS. Before you get into the dispersal program—maybe this is not in line with your statements, but, of course all of us have heard these stories of various kinds that you are going to recommend some kind of a control or stabilization program generally to the Congress. Is there anything to that?

Dr. FLEMMING. Mr. Congressman, if I might, I would like to wait to respond to questions of that kind until we do appear before the House committee and the Senate committee in connection with the Defense Production Act. It is a matter that is under discussion—the whole problem is under discussion in the executive branch, and I am not in a position to comment on it at this point.

The CHAIRMAN. I promised Dr. Flemming the other day I would not ask that question.

Representative RAINS. I wasn't pressing you for it. I didn't know.

Dr. FLEMMING. Shall I proceed with the industrial dispersal?

The CHAIRMAN. I would like to ask you, Is our supply of tungsten, and tungsten under contract, far in excess of our long-term stockpile objectives?

Dr. FLEMMING. The combined amount of tungsten in the stockpile and the Defense Production Act inventories exceeds the long-term objective by about 40 percent. This surplus will be further increased as deliveries are made under commitments undertaken in the early stages of the Korean war.

The CHAIRMAN. Are you still trying to take that under Public Law 206, the public law referred to by Congressman Rains?

Dr. FLEMMING. Public Law 206 is involved in this, and, of course, if Public Law 206 should be extended only as to time, why, our obligations would not increase.

Representative TALLE. Mr. Chairman——

Senator BRICKER. But not beyond the available money that you have?

Dr. FLEMMING. Positively not under Public Law 206 as it now stands, Senator Bricker, but it would tend to tie up money in that we would have to use it to acquire materials considerably in excess of our stockpile needs which would not be acquired if the programs terminated on the presently scheduled dates. So then, the question is whether we could use the money more effectively some other way.

Senator BRICKER. Some other way?

Dr. FLEMMING. Yes.

The CHAIRMAN. Mr. Talle.

Representative TALLE. I can understand that that might be an awkward situation, Dr. Flemming, if we take tungsten as an illustration.

Dr. FLEMMING. Yes.

Representative TALLE. I believe the price now is $63 a short ton, unit isn't it?

Dr. FLEMMING. That is right.

Representative TALLE. That is, what we pay?

Dr. FLEMMING. Yes.

Representative TALLE. Yet in the world market it is about 37?

Dr. FLEMMING. That is about it.

Representative TALLE. There is wide disparity between the world market price and the price we pay. The producers could and would certainly unload on us beyond our expansion goals.

Dr. FLEMMING. It seems to me, Mr. Chairman, that the question that the Congress has to weigh in the balance on considering a law like Public Law 206, is whether or not they feel that the extension of such a law is necessary in order to provide us with an adequate domestic mobilization base. In most instances, it will probably not be necessary in order to achieve stockpile objectives. On the other hand, there is always the problem of whether those stockpile objectives are high enough. If they are not, then, of course, our domestic mobilization base, as I said before, is an insurance policy. That, I think, is the kind of a question——

Senator BRICKER. How many tons are you purchasing now beyond the new objective?

Dr. FLEMMING. If we think in terms of the long-term stockpile objective, we are not undertaking any new purchase commitments, but under existing commitments we are accepting deliveries under the Defense Production Act and stockpile.

Senator BRICKER. At the present time 206 has been no real handicap to you?

Dr. FLEMMING. That is right.

The CHAIRMAN. You may proceed.

Dr. FLEMMING. On industrial dispersal: Of course, I feel you always have to look at industrial dispersal in the light of the total program of continental defense, and I feel that over a period of the past few years there have been some very encouraging developments in that area. Personally, I think that the organization of the Continental Defense Command at Colorado Springs was a very encouraging development. I had the opportunity of going out there for a briefing and you cannot go through that experience without realizing that we have made considerable progress.

Of course, as the Members of Congress know, substantial investments are being made during the present fiscal year in early warning systems, and very substantial investments will be made under the 1956 budget proposal.

I do think that the country is focusing its attention on the problem of dispersal to a greater extent than ever before.

Members of the committee may remember that a few years ago there was a study project known as project East River. The head of that was Gen. Otto Nelson, who is now the vice president of the New York Life Insurance Co. He was at that time, also. He had associated with him a large number of outstanding experts in that area. They filed with the Government what is undoubtedly one of the finest reports that has been made in this area. They included in that report one sentence that I think kind of sums up the problem that faces us as a Nation. They said:

> The problem, therefore, is one of achieving the best balance of dispersion or spacing within the practical limits of a properly functioning urban economy.

In other words, both have to be taken into consideration because, obviously, if we undermined our urban economy so that it didn't function in a proper way we would be undermining our total mobilization, and to achieve dispersal in order to do that wouldn't make good sense, so that you have got to somehow or other bring the thing into balance.

Of course, I feel that the best balance is going to be obtainable as leaders in the field of management, labor, as well as representatives

of our State and local governments, search for the best possible solution for their specific problems.

Obviously, the Federal Government must be active participants in the search for these solutions, as it has the responsibility for pointing up the interests of the Nation as a whole as judged by the capability of Soviet Russia to launch an attack on continental United States.

A few years ago, in fact right after the filing of this project, East River report, the executive branch recommended policies of dispersal and protective construction. Under the terms of the dispersal policy new defense facilities were to be located not less than 10 miles beyond the perimeter of certain designated areas of industrial and population concentration. Adherents to this standard by many industrial concerns has reduced their vulnerability to attack.

I might just give as an illustration there, for about a year and a half, now, maybe a little longer—approximately, maybe a little better than 2 years, in granting tax-amortization certificates, the Government has said, in case of any project involving a capital expenditure of a million dollars, or more, you should adhere to the disperal standards unless an exception is granted, and in 80 percent of the cases there was adherence to the dispersal standards. In 20 percent of the cases exceptions were granted, for good and sufficient reasons, and certainly I would not want to say anything that would convey the impression that those who had adhered to those standards, that we have used up to the present time, had not made a contribution to industrial dispersal. They have. But the recent statement of the chairman of the Atomic Energy Commission on weapons' effects makes it clear that it is still possible to reduce by dispersal the disastrous effects of blast and heat when accompanied by protective measures against fallout. It is equally clear, however, that a mileage yardstick that would conform to the increases in weapons capabilities could not be applied in a practical manner to all situations in all parts of the country. Any effort to do so would disrupt the economy of some parts of the Nation, and would fail to take into consideration differing geographical and other factors.

Therefore, a revision of the dispersal policy is necessary that will take into consideration the practical problems of the States and cities, and that will result in their being able to work out dispersal plans applicable to their situations.

No hard and fast rules can be provided by the Federal Government that will be equally suitable in all situations in all parts of the country. Criteria for measures which will lessen or minimize the damage which an attack might inflict must now take into account situations of the cities, the relation of geography, terrain, and economic and other factors. Nevertheless, this does seem to us that the Federal Government should make available basic information and provide the kind of guidance in the use of that information that will enable States and cities to develop dispersal plans that will enable them to achieve the best balance of dispersion or spacing within the practical limits of a properly functioning urban economy.

The Federal Government must make the same kind of information and advice available to businesses that are contemplating the erection of new plants. The Federal Government must see to it that those who apply for rapid tax amortization in order to construct new defense facilities seek, and unless an exception is granted, follow such advice,

In the construction of its own facilities for essential war activities, the Federal Government, unless an exception is granted, should follow the same advice that is given to States, cities, and those who are planning to build industrial facilities.

The Department of Commerce, through the Area Development Division, is the agency that will provide this information and advice. It is prepared to give some information and advice now. In a short period of time it will be in even better position to give such information and advice. I mean by that that we have a small task force made up of technical people who are acquainted with this situation, working on information and advice that in turn Commerce could make available.

Senator BRICKER. That means it will be available to industry, and is not limited to public building?

Dr. FLEMMING. That is right. States, cities, and so forth. It will be available to everyone.

In addition to the steps that I have outlined, the Federal Government must take positive action designed to make sure that the production of new types of weapons is not concentrated in existing critical target areas.

Finally, along with the Secretary of Defense and the Federal Civil Defense Administrator, I am inviting General Nelson, in cooperation with some of the persons who worked on that project, to advise us as to the steps they feel should be taken in the areas covered in the report as a result of new weapons' developments.

General Nelson has indicated his willingness to accept this invitation.

Senator BRICKER. That is about the most difficult problem we face in the country as a whole?

Dr. FLEMMING. That is right. My feeling is we have to keep working and pushing on it. We cannot afford to get in a frame of mind where we regard it as an end in itself. I think that is always the danger, dealing with a situation of this kind.

I also feel this, that in dealing with this problem you do have to work at it within the framework of President Eisenhower's age of peril, namely, 40 to 50 years, and if we don't accomplish something in the first 3 or 4 or 5 weeks, that doesn't mean that we shouldn't be working away at it and over a period of time we can undoubtedly put ourselves in a better position as a Nation than we are now in.

The CHAIRMAN. Is this dispersal program hampered by a lack of funds?

Dr. FLEMMING. Not the dispersal program, Mr. Chairman. Not the one I have been talking about. Conceivably the Government could provide some additional incentives along this particular line. I mean, we have indicated now for some period of time that if anybody wanted to come in with a proposal in this area, and wanted to talk with us about rapid tax amortization, that we would be willing to talk with them about it. I have had one industrial concern that is in a target area at the present time that is considering the possibility of moving out of the target area. They raised with me the question of whether or not we would be willing to use our loan guaranty authority in order to help in a move of that kind.

Senator BRICKER. Would that mean moving their employees, too?

Dr. FLEMMING. Yes, in this case—not too far in this case, however, Senator Bricker. They are really in the heart of the target area now, and I told them to write up his proposal and send it in; that we should take a look at it undoubtedly.

The CHAIRMAN. How many people are employed in this industry you spoke of?

Dr. FLEMMING. In this particular plant?

The CHAIRMAN. Yes.

Dr. FLEMMING. Frankly, I don't know. I don't think he mentioned the number to me. His is a medium-sized plant. I would say offhand probably a thousand or two thousand, something of that kind.

Representative TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Representative TALLE. I believe the dispersal policy was issued in August of 1951, was it not?

Dr. FLEMMING. That is right.

Representative TALLE. Has much progress been made to date?

Dr. FLEMMING. Well, it is a very hard thing to evaluate for the country as a whole. I gave you one indication of progress, or at least I gave you one set of figures in connection with the tax-amortization certificates, which indicates that where the Government had at least that much of control, some progress has been made, but it is still, as Senator Bricker has indicated, one of the most serious problems I think that confronts us at the present time.

Representative TALLE. How many persons are working on that problem?

Dr. FLEMMING. Well we have within the office of Defense Mobilization, we do not have anybody who gives full time to it. Again, we are working on the theory of working through our delegate agency. As indicated here, our intention is to focus the responsibility with the Area Development Division of the Department of Commerce, and if they do the kind of counseling job that I outlined in my testimony, I think they are going to need additional people over and above what they have now. They only have a few people working on it. Maybe it is a half dozen. Not more than a half dozen, anyhow.

Representative TALLE. Does the thinking of the military go along with your organization on the dispersal program, or is that an improper question?

Dr. FLEMMING. No; that isn't an improper question. I am sure that the position of the Defense Department topside is consistent—I mean that they do agree with the point of view that I have expressed here, but like all the rest of us, I have talked with some in the military services who think something like this makes good sense, and then, of course, there are others. There is another school of thought that thinks that if we get involved in another all-out war it will be over in a very short period of time, and this problem of keeping ourselves in position where we can get our productive capacity back again is really not a relevant problem.

But I think the general feeling, certainly this is true as far as topside defense is concerned, is that this is a serious problem. It is one that we should be working at.

Representative TALLE. It is probably pretty costly, too, isn't it? For instance, you don't have integrated industry within a reasonable area. If so, you would have a tremendous transportation cost.

Dr. FLEMMING. That is right.

Representative TALLE. Then your transportation lines would be a good target for the enemy, too.

Dr. FLEMMING. You have all of those related problems. I feel this, Congressman Talle: For one reason, I am personally enthusiastic about doing everything we can to push this program. It not only makes good sense from the standpoint of defense mobilization, but apparently industry has decided that it makes good sense just taking a lot of other factors into consideration, because certainly the trend on the part of industry has been in the direction of decentralization. If Senator Bricker were still here he and I would cite some illustrations of firms that, well, they have left one plant in Columbus, but they have gone north 25 miles to Delaware, Ohio, my hometown, and have put their plants down there.

Then, having absorbed as much of the labor market as they thought they could, they went on just a little farther east out in the country with another plant. That type of thing is going on and it apparently makes good sense from a business point of view, and it certainly makes good sense from the standpoint of defense mobilization.

Representative TALLE. Some of us have thought that, since the Mississippi River affords pretty good and also cheap transportation, some of these industries might well be located in the Middle West.

Dr. FLEMMING. I can see where a very good justification could be worked out for that. Of course, some have felt that it was desirable to move south also.

The CHAIRMAN. Yes.

Doctor, is there going to be a Presidential committee appointed to study this question?

Dr. FLEMMING. Mr. Chairman, when I appeared before a subcommittee of the Senate Armed Services Committee, I suggested the possibility of the Congress authorizing the appointment of a commission that would be selected in the same way that the two Hoover Commissions have been selected. That is, equal number by the President, by the Speaker of the House, and by the Vice President, the presiding officer of the Senate.

There seemed to be some interest in that suggestion at that time but nothing further has happened, so we are, as I have indicated here, asking General Nelson to come back in with some of his top people, and take a look at this whole area—not just dispersal, but all of the areas covered by the project, East River report, and make recommendations to us.

I will say very frankly the reason I made the proposal that I did before the Senate Armed Services Committee is this: This is a very delicate kind of operation. I don't think that we will make as substantial progress as we should make until both the legislative and the executive branches kind of join hands in developing and promulgating a set of basic standards that everyone should keep in mind in this area.

My thought that a commission, appointed like the two Hoover Commissions were appointed, come in and not have to spend a great deal of time on this, because facts are available, but come up with a series

of recommendations to the Congress which the Congress in turn might want to incorporate in a concurrent resolution or something of that kind. I feel that if the executive branch had that kind of backing from the legislative branch, that down at the grassroots people would accept the seriousness of this problem, maybe to a greater extent than has been the case up to now, because if the executive branch just handles it by itself it can very easily get into a situation where just a bunch of bureaucrats are trying to push people around and whereas if the elected representatives of the people take a look at it, having before them a commission report made by a commission such as the one I have suggested, then I think we would get better acceptance of the seriousness of the problem and of proposals for solving the problem. That is why I made the suggestion a few weeks ago.

The CHAIRMAN. What is the position of the Air Force on dispersal or do you care to answer?

Dr. FLEMMING. I don't know of any official position on that. It has never been transmitted to me.

Representative TALLE. Mr. Chairman——

The CHAIRMAN. Dr. Talle.

Representative TALLE. This is speculative, of course, inasmuch as we seem to be in war or preparing for a possible one all the time, but assuming that conditions of peace prevailed, the location of plants would be determined pretty much by accessibility of raw materials, labor supply, access to markets, and we might add water supply as one of the raw materials, and therefore this dispersal does represent a revolutionary thing and one which we enter into because of war conditions.

Isn't that right?

Dr. FLEMMING. That is right.

Let me put it this way, Mr. Congressman: I certainly think that as a nation, we should accelerate something that possibly was already in existence to some extent, but should accelerate it because of the seriousness of the international situation.

Representative TALLE. Of course, among the factors I mentioned, I should have included availability of labor.

Dr. FLEMMING. Yes. That is right.

Representative TALLE. I don't remember whether I did or not. Those are the factors to take into account. It seems to me the dispersal problem is so important that there probably should be a coordinating agency to get this job done in the event that you don't have full authority to do it. What do you think of that? Or is there such an agency?

Dr. FLEMMING. I think that—let me put it this way: I think that what is needed, and this is my own personal opinion, what is needed is a kind of a study by a joint legislative-executive committee that I talked about. Then I think they should make recommendations to the Congress as to the general principles, at least, that should be followed by the country in dealing with the problem. I think that those principles should be incorporated in a law, or in a concurrent resolution, and then I think that responsibility should be fixed very definitely on one agency to do everything possible to succeed, or do everything possible to secure an acceptance of those principles on the part of the country.

As far as the existing situation is concerned, by Executive order, responsibility on the dispersal side is fixed in the Office of Defense Mobilization, following our general policy we in turn have delegated the operating side of it to the Department of Commerce and in connection with this new policy I outlined and in connection with the giving of advice and assistance to cities and States, and to industrial concerns, etc., I have been rather insistent to the fact that for the time being anyhow, that advice be given from just a single source, namely, the area development division of the Department of Commerce, so that we can feel our way on this, and make sure that good sound advice is being given, advice that is related to the facts as they are made available by the Atomic Energy Commission and Department of Defense, etc.

Representative TALLE. Thank you, Dr. Flemming.

The CHAIRMAN. Doctor, I am very much interested in the development of our natural resources in this country, and among them chiefly our rivers, and the water running to waste, along with power, navigation, and recreation. The Government has to take a hand in it. It has to do that. The only thing that would pay the expenses over a term of years would be the selling of electric power. These certificates that are issued are mostly for steam power. That doesn't help develop the rivers of this country. I know I have one in mind now that ought to be developed. The Government will have to develop it. It means much to another dam on the same river. It is self-liquidating, and power is short, but it hasn't been developed yet.

It looks like we are going to steam power and leaving undeveloped our rivers. We want it developed for recreation and other purposes. In order to pay that load you also have to have electric power. A private company is not going to do that as long as they can go ahead and have steam power cheaper. I think something should be done. I think there should be more aggressiveness to go ahead and develop these large rivers with a waste of water running every day when we need it.

I just want to make that statement. Do you agree with me?

Dr. FLEMMING. Mr. Chairman, I feel the point of view you have expressed is a point of view that should be taken into consideration by the Department of the Interior in developing programs designed to make it possible for us to reach our overall objective, and I think that it is a very reasonable position that you have taken. I can assure you that if the Department of the Interior, as our delegate agency, or I mean as they work on the problem of developing programs that will make it possible for us to reach the goal that I have announced here today, we will be more than happy to support them if they come up with the kind of proposal that you have been talking about.

The CHAIRMAN. I am very delighted to have a man of your standing and integrity and intelligence agree with me. Certainly in the truth we are in sympathy.

Do you care to supplement your statement?

Dr. FLEMMING. I don't think of anything further at this time. I would like to say this, that I have tried to cover a considerable amount of territory this afternoon, but if at any time there are particular areas, or particular aspects of our work that the committee would like

to have me explore in more detail, of course, I will be very happy to do it. If it is the type of area where we have to deal with a lot of classified information, I would be glad to do it in executive session, and then we can determine how much of it can actually be publicized afterward, but I appreciate very much the opportunity of discussing these matters with the committee, having the benefit of the suggestions of the individual members of the committee, and I look forward to further opportunities along this line.

The CHAIRMAN. It takes weeks sometimes for some committees to get as much information as we got from you in 2 hours and 25 minutes.

Dr. FLEMMING. Thank you, sir. I appreciate it.

The CHAIRMAN. We will recess now, subject to the call of the Chair.

Senator Capehart wanted to ask some questions. He couldn't be here today. We will check with you and have a hearing later on. Again I want to congratulate you on this excellent statement you have made. We are glad you came down. You are a willing witness and you strike me as wanting to tell the truth and to be helpful to the Government and your country.

Thank you very much.

Dr. FLEMMING. I appreciate it very much.

(Whereupon, at 4:15 p. m., the committee recessed, to reconvene at the call of the Chair.)

APPENDIX

FOREIGN OPERATIONS ADMINISTRATION,
OFFICE OF THE DIRECTOR,
Washington 25, D. C., April 27, 1955.

Mr. HAROLD J. WARREN,
Clerk, Joint Committe on Defense Production,
HOLC Building, Washington 25, D. C.

DEAR MR. WARREN: This is in response to your call made originally to Mr. Everett Eslick, Chief, Power Branch, and discussed in more detail in your telephone conversation with Mr. Albert Huntington, Statistics and Reports Division, concerning funds utilized for power and irrigation projects abroad by FOA and predecessor agencies since the beginning of the Marshall plan, on April 3 1948.

There has been so much interest shown in this subject recently that we have prepared and reproduced the series of tables which we enclose.

As is shown in these tables, FOA or its predecessor agencies obligated a total of approximately $278 million for reclamation and power projects during the 6-year period from April 3, 1948, to June 30, 1954. This figure includes thermal powerplants and irrigation projects, as well as hydroelctric installations.

Table I is a summary of the detailed information by project which appears in tables II–V, covering European industrial projects, overseas territory projects; and similar project activity in the Far East, Near East, Africa, and South Asia. There were no FOA or predecessor agency-financed projects of this nature in Latin America.

Your attention is called to the fact that the obligations by fiscal year for European projects are as follows, in thousands of dollars: 1949, $20,344; 1950, $70,910: 1951, $22,170: 1952, $6,925; 1953, —$425 (net deobligations); 1954, $7.5. The new obligations in fiscal year 1954 were for two new steam power plants in Spain.

Sincerely yours,

NORMAN S. PAUL,
Deputy Director, For Congressional Relations.

TABLE I.—*Summary of FOA or predecessor agency obligations for reclamation (including irrigation) and power projects, cumulative, Apr. 3, 1948–June 30, 1954*

Program	Table in which detail is shown	Obligations as of June 30, 1954
		Millions
FOA and predecessor agency programs (total)		$277.6
European industrial projects	II	[1] 127.4
European overseas territory projects (special program in fiscal year 1950 and 1951)	III	1.6
Far East area (total)	IV	65.5
Near East, Africa, and South Asia (total)	V	83.1

[1] Obligations by fiscal year, in millions of dollars: 1949, $20.3; 1950, $70.9; 1951, $22.2; 1952, $6.9; 1953, $0.4 (net deobligations); 1954, $7.5.

Source: Statistics and Reports Division, Office of Research, Statistics, and Reports. Revised Apr. 21, 1955.

TABLE II.—*European industrial projects:*[1] *FOA or predecessor agency obligations, for irrigation, reclamation, and power projects, by country and project, cumulative Apr. 3, 1948–June 30, 1954*

[Thousands of dollars]

Country and project	Obligation (procurement authorizations)
Total	$119,920
Denmark: Steam electric station (60,000 kilowatts), at Kyndy	3,317
France	18,029
Extension of the Office du Niger irrigation project in French West Africa	1,191
Thermal electric powerplant at Dechy (120,000 kilowatts)	12,048
Boiler for steam-electric station at Arrighi (100,000 kilowatts)	2,444
Boiler equipment for steam-electric unit at Nantes Chevire (100,000 kilowatts)	1,805
Boiler equipment for 2d steam-electric station at Arrighi (100,000 kilowatts)	541
Greece	7,908
Thermal electric plant in Eubean Gulf territory (80,000 kilowatts)	7,188
Electric transmission, transformation, and distribution from Eubean Gulf territory station	293
Hydroelectric plant (40,000 kilowatts) at Agra on Vodas River	35
Electric transmission, transformation, and distribution out of Agra plant	121
Hydroelectric plant (50,000 kilowatts) at Ladhon	40
Electric transmission, transformation, and distribution out of Ladhon plant	174
Hydroelectric plant (5,000 kilowatts) at Louros	45
Electric transmission, transformation, and distribution out of Louros plant	12
Iceland	4,861
Expansion of hydroelectric plant on Sog River	3,891
Expansion of hydroelectric plant on Laxa River	970
Italy	62,110
Steam-electric station (50,000 kilowatts) at Genoa	5,669
Steam-electric station (60,000 kilowatts) at Palermo	6,066
Turbogenerator with 60,000-kilowatt capacity to serve northern Italy	6,230
Turbogenerator (50,000 kilowatts) at Genoa for Societa Edison, Milan	6,169
Turbogenerator (50,000 kilowatts) near Turin for Societa Idroelectrica Piemonte (SIP)	6,096
Steam-electric station (60,000 kilowatts) at Civitavecchia Rome	6,110
Steam-electric station (60,000 kilowatts) at Naples	6,097
Steam-electric station (100,000 kilowatts) at Piacenza	10,519
Steam-electric station (30,000 kilowatts) at Naples	3,349
Steam-electric plant (120,000 kilowatts) near Tavazzano for STEI	2,580
Addition to steam-electric plant (30,000 kilowatts) at Turin	3,225
Netherlands: Thermal powerplant (124,000 KW) on the Amer River	3,092
Portugal: Irrigation and power development in the Sorraia Valley and the plains of Villa Franca	897
Spain	7,500
Thermal powerplant at Burcena	3,750
Thermal powerplant at Escatron	3,750
Turkey	19,189
Power-transmission line from Catalagzi Thermal Station to the Bosphorus	6,543
Sariyar hydroelectric powerplant and related transmission lines	12,646
International: Austro-German hydroelectric powerplant at Braunau on the Inn River	517

[1] FOA European industrial projects are projects which are approved for major construction, modification, rehabilitation, or equipping of plants, installations, or facilities where substantial amount of integrated engineering or dollar procurement are required.

Source: Statistics and Reports Division, Office of Research, Statistics and Reports, Apr. 21, 1955.

TABLE III.—*European overseas territories: FOA or predecessor agency obligations for irrigation and reclamation projects, by area and project, as of June 30, 1954*

[Thousands of dollars]

Area and project	Obligations (procurement authorizations)
Total	$1,577
French territories: Morocco rice cultivation	264
Netherlands territories: Surinam: Eysvoogel land reclamation	1,296
United Kingdom territories: Cyprus antierosion and reclamation	17

GENERAL NOTE.—This program, in which ECA utilized European program funds to finance directly specific projects in the overseas territories of European countries, was active in fiscal years 1950 and 1951. This table shows the current status, as of June 30, 1954, of the obligations originally entered into during that earlier period.

Source: Statistics and Reports Division, Office of Research, Statistics, and Reports, Nov. 16, 1954.

TABLE IV.—*Far East program: FOA or predecessor agency obligations, for irrigation, reclamation, and power projects, by country and type of project, cumulative June 5, 1950–June 30, 1954*

[Thousands of dollars]

Country and type of project	Obligations (procurement authorizations)	Country and type of project	Obligations (procurement authorizations)
Total	$65,481	Philippines	4,696
Korea: Thermal power development (Seoul, Pusan, Sanchok)	29,000	Irrigation (pump and gravity)	4,685
China (Formosa)	24,470	Electric power survey	11
Irrigation and reclamation	259	Thailand	5,553
Hydropower generation	8,297	Irrigation and reclamation	3,504
Thermal power generation	8,185	Thermal power generation	1,100
Power transmission and distribution	7,729	Power system survey	50
		Rural power	899
Indochina, Associated States	1,762		
Irrigation and reclamation	1,166		
Thermal power generation	596		

Source: Statistics and Reports Division, Office of Research, Statistics and Reports, Nov. 16, 1954.

TABLE V.—*Near East, Africa, and South Asia: FOA or predecessor agency obligations or programs for irrigation, reclamation, and power projects, by country and project, July 1, 1951–June 30, 1954*

[Thousands of dollars]

Country and project	Obligations
Total for region	$83,109
Near East	8,199
Africa	8,076
South Asia	66,639
Regional	195
Total for Near East	8,199
	3,403
Iran:	
Golpayegan Dam	137
Kouhrang tunnel	66
Land-use surveys	140
Karkheh Dam	158
Ghanat reconstruction	180
Irrigation improvement	92
River Basin survey	295
Karaj Dam	1,400
Zayanderoud Basin	335
Yezd deep wells	150
Shiraz	450
Iraq	[1] 423
Range improvement	5
Irrigation designing construction	194
Irrigation and drainage laboratory	4
Water resources planning irrigation laboratory and groundwater survey	170
Water-resources utilization	50
Israel	162
Irrigation	25
Use of rangelands	30
Water storage	13
Improvement of rangeland	12
Improvement of rangeland and livestock	72
Irrigation methods	10
Jordan	2,025
Yarmouk Jordan Valley	1,090
Range water development	362
Range management and groundwater development	134
Forestry and soil conservation	39
General Wadi development	303
Wadi Dubleil	97
Lebanon	1,486
Litani River Basin investigations	786
Water reconnaissance survey	85
Kasmie construction project	241
Irrigation	72
Kasmie irrigation	302
Saudi Arabia	700
Natural resources survey	140
Rural community development project	500
Groundwater development	60
Total for Africa	8,076

Country and project	Obligations
Egypt	$2,527
Agricultural drainage	219
Drainage investigations and improvements	29
Underground water survey	173
Land reclamation and development	1,719
Desert range development	82
Photogrammetric mapping	202
Desert grazing	103
Ethiopia: Water resources	[1] 400
Liberia	302
Hudroelectric hydrology	2
Aerial photographic survey	300
Libya: Groundwater resources	[1] 319
Development of overseas territories: French Morocco (hydroelectric project) [2]	4,528
Total for south Asia	66,639
Afghanistan: Helmand Valley agricultural development	[1] 647
India	57,242
Ground-water irrigation, construction, and equipment	21,500
River valley development (power, irrigation, and flood control)	9,889
Ground-water exploration	4,221
Do	3,500
Rihand River Dam construction	11,000
Powerplant expansion	2,900
Improvement of Rajaethan power facilities	3,600
Engineering services DVC (Marya)	632
Nepal	252
Irrigation	209
Irrigation from Tilawo	43
Pakistan	8,498
Ground-water exploration and tube wells	200
Malchi Dhand (reclamation)	500
Bolan Dam	450
Baluchestan State Union development	300
Water supply and control—Kamofali	750
Water supply and control—Punjab	85
Water supply and control—Taunsa barrage	3,500
Soil and water conservation—Baluchestan Province	130
Do	55
Punjab ground-water survey	858
Water supply and control (irrigation, Granges Kobaclak)	1,670
Regional projects: Water spreading	195

[1] Includes programed figures for 1954.
[2] French counterpart funds derived from basic materials to be used for this project.

Source: Statistics and Reports Division, Office of Research, Statistics and Reports, Apr. 22, 1955.

Information on Electric Power Reserves

(Prepared by the staff of the Joint Committee on Defense Production)

A report of the Director of the Office of Defense Mobilization submitted to the Joint Committee on Defense Production, dated September 21, 1954, for inclusion in the fourth annual report of the committee, included the following:

"Fifteen percent is the margin generally accepted by the electric utility industry as needed to maintain a reasonable standard of service in peacetime. It would appear desirable to plan for a somewhat higher objective for use in a mobilization emergency to assure the meeting of all defense requirements. This would also permit maximum use of materials, manpower, and facilities in the early days of a war for high-priority, short-run production items for military purposes. Mobilization needs also require some extra margin to provide insurance against probable attack damage, as our facilities for the first year after an atomic attack would consist primarily of remaining undamaged plants."

The decrease in indicated electric power reserves from the year 1954 through 1958 is summarized in the following chart:

Electric-power reserve (Jan. 31, 1955, report of the Federal Power Commission), for years 1954, 1955, 1956, 1957, and 1958

[Percent]

Location	Indicated reserve				
	December 1954 [1]	December 1955	December 1956	December 1956	December 1958
Region I	16.6	15.7	13.9	12.4	7.6
Region II	21.9	19.6	20.2	16.8	10.9
Region III	16.4	14.4	14.2	8.2	.7
Region IV	17.3	20.8	19.5	15.1	11.4
Region V	56.3	51.9	53.1	46.6	35.8
Region VI	37.4	37.4	33.1	36.0	25.1
Region VII	9.3	2.5	3.5	.4	−1.3
Region VIII	27.7	26.0	23.1	18.6	13.1
National (total)	21.6	20.0	19.4	15.6	9.8

[1] Average hydro, December 1954 report.

March 29, 1955.

Memorandum for the Chief, Bureau of Power

Subject: Transmission Information for the Joint Committee on Defense Production.

A short investigation has been made pursuant to the request from Mr. Harold Warren of Joint Committee on Defense Production for information regarding transmission losses and the amount of power transmitted between power supply regions in the United States.

The energy transfers between region III and adjoining regions were as follows in 1953:

Energy transfers between region III and adjoining regions

	Kilowatt-hours	
	Received [1]	Delivered [2]
Region I	15,347,927	
Region II	3,927,255,044	822,335,300
Region IV	34,146,824	46,684,735
Region V	422,522,000	35,143,000
Total	4,399,271,795	904,163,035

[1] Received by region III from other regions.
[2] Delivered by region III to other regions.

The energy transfers between region VII and adjoining regions in 1953 were as follows:

Energy transfers between region VII and adjoining regions

	Kilowatt-hours	
	Received [1]	Delivered [2]
Region VI	172,021,601	1,299,000
Region VIII	80,124,600	285,083,000
Canada	308,044,223	
Total	560,190,424	286,382,000

[1] Received by region VII from other regions.
[2] Delivered by region VII to other regions.

The Commission generally does not compile this information, and in order to obtain the above totals, it was necessary to examine and extract exchange figures from the power system reports of every company having transmission lines that cross the regional boundaries. It would take a man several days to compile corresponding figures for the remaining regions.

With respect to transmission losses, it is difficult to give general or average figures that may not be misleading. However, an attempt has been made to prepare typical figures for 110-kilovolt, 220-kilovolt, and 330-kilovolt transmission lines carrying power at normal and half normal rating for selected distances up to 300 miles. The conditions assumed as representing usual operating practice are a 10-percent voltage drop between transmitting and receiving stations and power factor correction at the receiving end to 95 percent. Some operating systems load their transmission lines considerably above the amounts assumed for these calculations and incur losses that may be as much as 40 percent greater than these figures, while others regularly use lighter loading. Typical line loadings and losses are probably about as follows:

	100 miles		200 miles		300 miles	
	Full load	Half load	Full load	Half load	Full load	Half load
330 kilovolt, percentage loss	3.9	2.3	4.7	2.7	6.0	3.3
Power carried, megawatts	320	160	225	113	220	110
220 kilovolts, percentage loss	5.3	3.0	6.8	3.7		
Power carried, megawatts	125	62.5	90	45		
110 kilovolts, percentage loss	8.3	4.5				
Power carried, megawatts	25	12.5				

It is therefore reasonable to assume transmission losses under favorable operating conditions from 3.9 to 8.3 percent for normally loaded lines with greater losses in the case of very heavily loaded lines.

C. E. BENNETT,
Chief, Division of Electric Resources and Requirements.

OUTLINE OF TESTIMONY OF ARTHUR S. FLEMMING

I. INTRODUCTION

A. It is a pleasure to appear before this committee again to report on the progress of the defense mobilization program.

B. Several weeks ago I submitted to the committee a report covering the highlights of the recent activities of the Office of Defense Mobilization.

1. I would like to submit at this time a copy of that report to be included in the record of this hearing.

C. Before getting into the details let me say a word about my philosophy regarding the role of ODM.

1. The mission of ODM, broadly stated, is synonymous with the objectives of the mobilization program itself.

a. It is charged with insuring

(1) that necessary preemergency preparedness actions are taken in a timely and economic manner;

(2) that in the event of war we have available materials and other critical resources in such amounts as to permit full and rapid conversion of the Nation's industrial and civilian strength to meet war requirements; and,

(3) that the Government is ready to act in an emergency in a prompt and consistent manner on all mobilization fronts.

2. The Office of Defense Mobilization accomplishes its mission largely through the planned delegation of mobilization readiness activities to existing Government departments and agencies.

a. It delegates specific authority to act, under policies established by ODM, to other Government agencies.

b. Its staff works with these delegate agencies in the detailed development of their tasks.

c. It establishes action objectives, such as stockpile goals and industrial expansion targets.

3. By following this approach, ODM has remained a small staff agency.

a. The success of this approach depends upon providing sufficient support to these agencies so that they will have the resources to do the mobilization job.

II. MOBILIZATION READINESS PLANNING

A. We are planning on the assumption that we are in an age of peril which may run for 40 or 50 years.

1. It is clear that situations could arise during this period ranging all the way from a relatively slight increase in our defense mobilization activities to a general mobilization following an attack on the continental United States.

2. We are developing action plans to cover these various contingencies.

a. These plans receive frequent reviews, not only by my staff, but also by members of the Defense Mobilization Board at its regular weekly meetings.

b. We are also using the war-game technique to determine the practicality and effectiveness of these plans. The next test of this sort will be held in conjunction with the Federal Civil Defense Administration this coming June.

III. THE MOBILIZATION BASE

A. Next I am going to discuss some of the programs connected with the development and maintenance of the mobilization base.

B. The first step in building the mobilization base is the determination of requirements.

1. Last year we completed an extensive supply-requirements analysis to obtain information about the adequacy of our mobilization base.

a. The Defense Department determined requirements for 1,000 major military hard goods items. At the same time, other delegate agencies such as the Department of Commerce, developed information on defense or war-supporting items and items needed to support a rock-bottom civilian economy.

2. The requirements information was then related to available information regarding supplies in order to help us identify the gaps in our mobilization base.

3. This analysis provided the basis for translation into requirements for stockpile material; developing a program for dealing with those critical components which are subject to long lead time, capacity limitations, or other resource bottlenecks; developing requirements and supply capabilities for various shapes and forms in copper, steel, and aluminum; and developing the manpower requirements necessary to carry out the program.

4. The Department of Defense is now working on the development of new requirments information based upon changes in strategic plans.

a. Defense is developing its requirements as a part of its regular budget process; the first figures will be developed in connection with the fiscal 1957 budget and, thereafter, they will be kept current on an annual basis.

IV. FINANCIAL INCENTIVES

A. As we determine requirements in various fields we attempt to expand supplies through the use of financial incentives; in particular, tax amortization and the borrowing authority provided in the Defense Production Act.

1. Congress also authorized a borrowing authority fund to be used in making loans for defense purposes and to expand the production capacity and supply of minerals, metals, and other materials by purchases for Government use or resale.

2. A large portion of the post-Korea defense buildup has been financed by private capital with nothing more than tax amortization as an incentive except in connection with strategic and critical materials and selected machine tools where borrowing authority has been used.

a. During this period, private capital has been certified for investment in defense facilities amounting to $30 billion.

b. Only 60 percent of the overall actual investment has been subject to the fast depreciation writeoff.

c. Expansion goals have been established only in those areas of industry where there was or is a shortage and a defense relationship.

d. As goals are filled they are closed. A total of 224 goals have been established to date: 136 are closed, 1 is in suspense, and 87 are still open.

B. Certificates of necessity have been a great help in encouraging private financing, thus lessening the burden of direct Government financing or loans.

1. The interest on the money borrowed by the Government to replace deferred taxes during the 60-month period is an ascertainable cost to the Government.

2. On the other hand, it is not ascertainable just how much expansion would have been lost or delayed without the tax amortization incentive.

3. Whatever the cost of tax amortization may be to the Government, there appears to be no cheaper way to encourage expansion of productive capacity and supply which is identified as, and limited to, the definition "necessary for national defense."

V. THE JOB AHEAD

A. There are some areas of our industrial complex where requirements for mobilization have not been met. Open expansion goals still exist in these areas and tax amortization continues to be offered.

1. Since tax amortization is the least expensive incentive which can be offered, its continued use is necessary and must rest on the determined necessity to fulfill open expansion goals.

B. In some instances, however, it will be necessary to utilize incentives other than tax amortization to fill open expansion goals. Detailed studies are being made now to evaluate the deficiencies represented by unfilled open expansion goals and to uncover any other deficiencies which may exist.

C. To illustrate this problem of incentives to obtain needed expansion, I would like to discuss the problem of components.

1. The Departments of Commerce and Defense and the Atomic Energy Commission have underway, under ODM leadership, 51 studies to determine mobilization deficiencies in selected components and to recommend action for removing any indicated deficiencies; 8 studies have been completed.

a Six of the studies (fractional horsepower motors, automotive steering gears, transformers, switch gears, automotive universal joints, and automotive wheels) show that there is probably ample capacity to meet mobilization requirements.

b. Two of the completed studies—high-pressure steam boilers and turbines and turbine-driven reduction gears—show the existence of critical shortages in capacity to meet full mobilization requirements.

2. Last year, after the report on high-pressure steam boilers had been completed and the preliminary results of the study on steam turbines and turbine gears were available, ODM's Interagency Committee on Components considered various methods that might be used by the Government in overcoming critical component deficiencies.

3. The Committee unanimously recommended that the ODM should provide the funds for carrying on this program, by using the borrowing authority in the Defense Production Act.

a. Discussion within ODM resulted in the conclusion that it would be appropriate to use the borrowing authority for this purpose.

b. The Defense Mobilization Board considered the recommendation and was in agreement with the proposal to use the ODM borrowing authority for removing critical component deficiencies.

C. I decided that prior to the submission of such proposals to the Borrowing Authority Review Board, they should be cleared through a committee composed of industrial leaders, such as those who served on the earlier Advisory Committee on Production Equipment.

1. Last February I appointed an Advisory Committee on Components and Production Equipment, with Harold S. Vance as Chairman.

2. The Committee considered all the facets of the turbine program and unanimously recommended that the ODM take immediate action to eliminate part of the shortage of mobilization capacity which exists in this industry.

3. The Committee recommended that the General Services Administration be instructed to procure approximately $64 million worth of machine tools and facilities to round out the capacity of the turbine and turbine-gear industry.

4. No decision has yet been reached regarding the use of the borrowing authority to partially overcome the deficiency of capacity to procure steam boilers.

5. My inclination is to approve the recommendation of the Vance Committee. Before doing so I want to indicate my intention to appropriate committees of the Congress.

D. Let me cite one more specific expansion problem which I know is of interest to the committee: the problem of electric power.

1. We have decided, with the concurrence of the Department of the Interior, our delegate agency in the field, to reopen and update the expansion goal for electric power.

a. The objective is being placed at 150 million kilowatts of capacity by the end of 1958, which represents an increase of about 34 million kilowatts over the capacity which will be in place at the end of this year.

b. About 40 percent of this increase has already been scheduled by the utilities, according to their report to the Federal Power Commission.

c. Under this goal we shall process those applications for tax amortization which have been pending since the former goal was suspended at the time the stated objectives had been met.

d. New applications will be received and processed under established certification procedures.

2. The former power goal provided potential tax amortization privileges for the construction of 42 million kilowatts of capacity.

a. This amount has been scheduled, 22 million of which is covered by amortization certificates.

b. About 90 percent of the construction undertaken by private utilities was certified under the expansion goal.

c. The balance of the expansion program consisted of Federal, State or municipal projects for which the tax amortization privilege was of no advantage.

VI. MATERIALS

Now let us turn to another phase of ODM's activities: our work in the field of materials.

A. Where it appears that materials supplies are now, or are likely to become inadequate to meet defense needs, private industry is encouraged to expand productive capacity, with appropriate assistance by means of a variety of Government incentives including accelerated tax amortization, other tax benefits, guaranteed markets, procurement contracts, and loans and guaranteed loans.

B. In specific cases stockpiling is utilized to provide a reserve of materials within the United States intended to decrease and prevent wherever possible a dangerous and costly dependence upon foreign nations for supplies of strategic and critical materials in time of national emergency.

C. Under the Defense Production Act of 1950, commitments approximating $6 billion have already been made to expand supplies of materials for defense purposes.

1. Among the major programs launched under this authority is aluminum, where United States annual productive capacity has been doubled from its pre-Korean level of about 700,000 tons a year to a present level of about 1,500,000 tons a year.

a. In the case of copper, nearly a billion dollars in long-term market guaranties have resulted in the expansion of domestic copper mines so as to increase United States domestic mine production of copper by about 250,000 tons a year when in full production.

b. Over a half billion dollars has been obligated to increase the production of nickel, while hundreds of millions have also been obligated for manganese, molybdenum, and tungsten.

c. Lesser sums are involved in expansion of many other materials including asbestos, chrome, cobalt, columbite, tantalite, fluorspar, graphite, mercury, mica, and zinc.

2. The authority to grant accelerated tax amortization to aid in the expansion of operations of numerous producers of metals and minerals, has been continued in the Internal Revenue Code of 1954.

a. Steel is a good example of a major industry where expansion has taken place almost entirely by private financing with the assistance afforded by accelerated tax amortization.

(1) Current steel capacity is about 126 million tons a year compared to World War II capacity of about 85 million tons a year.

3. Under the Revenue Act of 1950 it was possible to exempt from the excess profit tax domestic production of certain strategic and critical metals and minerals which previously had not been produced in appreciable quantity within the United States.

a. This assistance resulted in a major increase of domestic production of the rare earth minerals where, only a few years ago, the United States was almost wholly dependent on foreign sources such as Brazil and India.

4. Under the Defense Production Act, the search for new domestic mineral deposits has been encouraged by a program designed primarily to assist small mining companies by advancing a portion of the costs involved in exploring for domestic minerals.

a. Under this program, administered by the Defense Minerals Exploration Administration in the Department of the Interior, approximately $21 million has been spent and over 700 projects in over 30 States have been undertaken.

b. New legal authority for multiple mineral operations on the public lands of the West is also expected to further stimulate domestic exploration and development.

D. I want to turn now to the stockpile program which is carried on pursuant to the Strategic and Critical Materials Stockpiling Act (P. L. 520, 79th Cong.).

1. At the present time 75 materials are being stockpiled.

2. Overall stockpile objectives are currently valued at $9.6 billion, of which materials valued at approximately $4.9 billion are on hand.

3. The overall objectives are broken down into two categories:

a. First, minimum objectives valued at approximately $6.5 billion, of which materials valued at approximately $4.1 billion are currently on hand; and

b. Second, long-term objectives for metals and minerals, established pursuant to President Eisenhower's directive of March 26, 1954, valued at approximately $3.1 billion, of which materials valued at about $0.8 billion are currently on hand.

4. Commitments already made under the Stock Pile Act and the Defense Production Act make substantial provision for the completion of most stockpile objectives within the next few years.

a. Of the 75 minimum stockpile objectives, 39 were completed by December 31, 1954, and 9 others were 75 percent or more complete.

b. By June 30, 1956, we expect that 62 minimum objectives will be 75 percent or more complete.

c. The exact status of different materials in the program is classified information and a detailed report is submitted semiannually to the Congress, describing the inventory position of each of these materials.

VII. INDUSTRIAL DISPERSAL

A. We are making substantial progress in the direction of developing an effective program of continental defense.

1. The organization of the Continental Defense Command.
2. Substantial investments are being made in early warning systems.
3. We are focusing our attention on the problem of dispersal.

a. The authors of Project East River turned the spotlight on the complexity of this problem when they said:

"The problem, therefore, is one of achieving the best balance of dispersion or spacing within the practical limits of a properly functioning urban economy."

b. This "best balance" is going to be obtained only as leaders in the fields of management and labor as well as representatives of our State and local governments search for the best possible solution for their specific problems.

(1) The Federal Government must be an active participant in the search for these solutions, as it has the responsibility for pointing up the interests of the Nation as a whole as judged by the capability of Soviet Russia to launch an attack on continental United States.

c. The executive branch of the Federal Government a few years ago recommended policies of dispersal and protective construction.

(1) Under the terms of the dispersal policy, new defense facilities were to be located not less than 10 miles beyond the perimeter of certain designated areas of industrial and population concentration.

(2) Adherence to this standard by many industrial concerns has reduced their vulnerability to attack.

d. The recent statement of the Chairman of the Atomic Energy Commission on weapons effects, makes it clear that it is still possible to reduce, by dispersal, the disastrous effects of blast and heat, when accompanied by protective measures against fallout.

(1) It is equally clear, however, that a mileage yardstick that would conform to the increases in weapons capabilities could not be applied in a practical manner to all situations in all parts of the country.

(2) Any effort to do so would disrupt the economy of some parts of the Nation and would fail to take into consideration differing geographic and other factors.

e. Therefore, a revision of the dispersal policy is necessary that will take into consideration the practical problems of the States and cities and that will result in their being able to work out dispersal plans applicable to their situations.

(1) No hard and fast rules can be provided by the Federal Government that would be equally suitable in all situations and in all parts of the country.

(2) Criteria for measures which will lessen or minimize the damage which an attack might inflict must now take into account size of the cities, the relation of geography, terrain, and economic and other factors.

f. The Federal Government must, however, make available basic information, and provide the kind of guidance in the use of that information, that will enable States and cities to develop dispersal plans that will enable them to achieve "the best balance of dispersion or spacing within the practical limits of a properly functioning urban economy."

(1) The Federal Government must make the same kind of information and advice available to businesses that are contemplating the erection of new plants.

(2) The Federal Government must see to it that those who apply for rapid tax amortization in order to construct new defense facilities seek and, unless an exception is granted, follow such advice.

(3) In the construction of its own facilities for essential war activities, the Federal Government, unless an exception is granted, should follow the same advice that is given to States, cities, and those who are planning to build industrial facilities.

g. The Department of Commerce, through the Area Development Division is the agency that will provide this information and advice.

(1) It is prepared to give some information and advice now.

(2) In a short period of time, it will be in even better position to give such information and advice.

h. In addition to the steps that I have outlined, the Federal Government must take positive action designed to make sure that the production of new types of weapons is not concentrated in existing critical target areas.

i. Finally, along with the Secretary of Defense and the Federal Civil Defense Administrator, I am inviting Gen. Otto H. Nelson, who headed Project East River, in cooperation with some of the persons who worked on that project, to advise us as to the steps they feel should be taken in the areas covered in the report as a result of new weapons developments.

(1) General Nelson has indicated his willingness to accept this invitation.

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